



ORBITAL[®]

2017 ANNUAL REPORT

CORPORATE PROFILE

ORBITAL[®] is an innovative industrial technology company.

ORBITAL invents and builds smart technology that delivers improved performance outcomes for our clients in the aerospace, mining & industrial and consumer sectors.

ORBITAL operates on a global scale and is headquartered in Perth, Western Australia. From a world class facility, **ORBITAL's** innovation magic takes shape – from research and design to development, manufacturing and implementation.

Delivering state-of-the-art products and services within the industrial technology sector is what we do.

Orbital's[®] UAVE business produces and supplies engine and propulsion systems for unmanned aerial vehicles. **REMSAFE** offers a safety rated automated isolation system used on materials handling and process plant.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

The Directors present their report together with the financial report of Orbital Corporation Limited (the Company or Orbital) and of the Group, being the Company and its subsidiaries for the year ended 30 June 2017 and the auditors' report thereon.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

1. OPERATING AND FINANCIAL REVIEW

CHAIRMAN & CEO REPORT



John Welborn
Chairman
Non-executive Director



Todd Alder
Managing Director & Chief Executive Officer

Dear Shareholders,

On behalf of the Board of Directors, we present the annual report of Orbital Corporation ("Orbital") for the year ended 30 June 2017.

OVERVIEW AND FINANCIAL RESULTS

The Company faced certain challenges over the past 12 months contributing to financial results below expectations. Revenue of \$14,370,000 (2016: \$11,751,000) was impacted by interruptions to the UAVE build program and lower than expected sales of REMSAFE hardware. The net loss after tax of \$12,251,000 (2016: profit of \$1,283,000) includes REMSAFE goodwill impairment of \$5,218,000 (2016: \$nil).

The Company reports a strong balance sheet with cash, receivables and short-term investments of \$23,754,000 and net current assets of \$19,892,000.

FY2017 MILESTONES

Despite the disappointing financial result the UAVE business achieved a number of key milestones during the financial year, including the continued shipment of UAV engines to Insitu Inc. (a subsidiary of The Boeing Company), a second \$12,000,000 batch order, securing a Long Term Supply Agreement (LTA) worth up to \$120,000,000 over a three year period and a new \$800,000 engineering contract for the development and further evolution of the N20 engine.

In light of the tough market conditions facing REMSAFE the Company removed \$1,200,000 of operating costs from the business and launched lower cost automated isolation systems in the new Gen 5 and Mobile product, generating an increasingly positive and broader sales outlook.

MANAGEMENT AND BOARD TRANSITION

Mr John Poynton retired as a Non-Executive Director in April 2017 after two years on the Board, and Mr Terry Stinson's role has transitioned to Non-Executive Director as of 11 August 2017 after holding the dual Managing Director and CEO positions with Orbital for the past nine years. Mr Steve Gallagher joined the Board as a Non-Executive Director in April 2017, and Mr Todd Alder who after being appointed CFO & Company Secretary in December 2016 was appointed Managing Director and CEO on 11 August 2017. Following the transition of Mr Alder to Managing Director and CEO was the appointment of Ms Roulé Jones as CFO and Company Secretary.

FY2018 OUTLOOK

The outlook for Orbital remains positive given the significant UAVE opportunities and broader initiatives being investigated to unlock value within the REMSAFE business.

The Chairman and Managing Director would like to thank the ongoing commitment of the Company's shareholders and staff.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

2. DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Mr John Paul Welborn, B.Com, CA, MAICD, SA Fin

Chairman

Joined the Board in June 2014 and appointed as Chairman in March 2015. Mr Welborn is the Managing Director and Chief Executive Officer of Resolute Mining Limited (ASX: RSG), an ASX listed gold producer with two operating gold mines in Africa and Australia, effective 1 July 2015.

Mr Welborn is a Chartered Accountant with a Bachelor of Commerce degree from the University of Western Australia and holds memberships of the Institute of Chartered Accountants in Australia (ICAA), the Financial Services Institute of Australasia (FINSIA) and the Australian Institute of Company Directors (AICD).

Mr Welborn is a former International Rugby Union Player with extensive experience in the resources sector as a senior executive and in corporate management, finance and investment banking. He was the Head of Specialised Lending in Western Australia for Investec Bank (Australia) Ltd and has more than 20 years of commercial experience in national and international professional services and management consulting firms.

Mr Welborn has served on the Boards of a number of charitable organisations, and is a former Commissioner of Tourism Western Australia.

Mr Welborn has also served as a director of Resolute Mining Limited (appointed February 2015; ongoing), Equatorial Resources Limited (appointed August 2010; ongoing), Prairie Mining Limited (appointed February 2009; resigned September 2015) and Noble Mineral Resources Limited (appointed March 2013; resigned December 2013).

Mr Todd Alder, BEc (Acc), CPA, ACIS

Managing Director and Chief Executive Officer (Appointed 11 August 2017)

Joined Orbital as Chief Financial Officer and Company Secretary in December 2016 and appointed as Managing Director and Chief Executive Officer in August 2017. Mr Alder is a highly experienced senior executive and an accomplished leader with a strong background in financial and corporate services management in the mining, steel manufacturing and energy industries.

His previous role was Chief Financial Officer and Company Secretary at Toro Energy Limited where he was responsible for financial and management accounting, company secretarial functions, investor relations and information technology. Mr Alder has also worked with Capgemini Consulting (previously Ernst & Young) and Origin Energy Limited.

Mr Terry Dewayne Stinson, BBA (magna cum laude), FAICD (*Resigned as Managing Director and Chief Executive Officer 11 August 2017*)

Non-Executive Director

Joined the Board and appointed Chief Executive Officer in June 2008 and as Non-Executive Director in August 2017. Mr Stinson has over 35 years of international experience in engineering and technology commercialisation and management across the automotive, aerospace, defence, maritime, industrial products, mining and manufacturing sectors. Mr Stinson has been a senior executive with Siemens, Europe's largest engineering conglomerate, with direct responsibility for sales in excess of US\$300 million per annum in their Gasoline Systems, Fuel Systems and Fuel Components operations in the United States, Germany, Italy, China and support in many others. Mr Stinson has also served as a representative Director for Siemens on the Synerject Board.

Prior to that, he held the position of VP Manufacturing for Outboard Marine Corporation, a privately held US\$1 billion multinational outboard marine propulsion and boat company, was CEO of Synerject LLC and held various executive positions with Mercury Marine in R&D, engineering, manufacturing and others.

On 9 February 2017 Mr Stinson was appointed Chairman of advanced graphite and graphene materials specialist, Talga Resources (ASX: TLG).

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

2. DIRECTORS (CONTINUED)

Mr Steve Gallagher, B.E (Hons), B.Com, MAICD (*Appointed Non-Executive Director 12 April 2017*)

Non-Executive Director

Joined the Board in April 2017, Mr Gallagher is Principal of Agere Pty Ltd, an advisory and investment company drawing on his capability and professional networks established over 30 years as a CEO and Director of global businesses.

Mr Gallagher held Director positions with HKEX Hang Seng listed CCRTT, ASX listed ERG Ltd and CEO/GM positions with Vix Technology and global engineering powerhouse Siemens. Mr Gallagher has operated in various business sectors including Industrial Automation, Building Technology and Power Systems, having spent 15 years living and working in Asia (China, Hong Kong and Singapore) and Europe (Switzerland).

Mr Gallagher is currently a Non-Executive Director with Optal Ltd (an innovative global payment solutions company), Vix Technology Ltd (an industry leader in transport ticketing, fare collection/payments), Ventura Bus Lines Pty Ltd (a leading public transport and charter bus service provider in Australia) and Transact1 Pty Ltd (a financial services provider for cash management optimisation).

Mr John Hartley Poynton AO, BCOM, Hon D. Com, S F Fin, FAICD, FAIM (*Resigned as Director 12 April 2017*)

Non-Executive Director

Joined the Board in March 2015. Mr Poynton is a former Chairman of Azure Capital, a Director of the Future Fund Board of Guardians and a Non-Executive Director of Crown Perth. He is also Chairman of Giving West and the Council of Christ Church Grammar School.

He has previously served as the Chairman, Deputy Chairman or Non-Executive Director of a number of ASX listed companies, Federal Government Boards, education institutions and not for profit enterprises. Mr Poynton brings extensive corporate advisory, equity capital markets and governance experience to Orbital's Board.

Mr Poynton is a Life Member and Senior Fellow of the Financial Services Institute of Australasia (FINSIA), and a Fellow of the Australian Institute of Company Directors (AICD) and Australian Institute of Management (AIM).

3. DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the Company shown in the Register of Directors' Shareholdings as at the date of this report is as follows: -

Director	Ordinary Shares	Performance Rights
J P Welborn	679,103	-
T M Alder	-	-
T D Stinson	1,672,621	500,000
S Gallagher	-	-
J H Poynton	-	-
Total	2,351,724	500,000

4. DIRECTORS' MEETINGS

The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the financial year are shown below.

Director	No. of meetings attended	No. of meetings held*
J P Welborn	6	6
T M Alder	-	-
T D Stinson	6	6
S Gallagher	2	2
J H Poynton	4	4

* Number of meetings held during the time the director held office during the year.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

5. COMPANY SECRETARY

Ms Roule Jones, B Com, BA, CA, PGDA (*Appointed as Company Secretary 16 August 2017*)

Joined Orbital as Financial Controller in February 2013 and appointed as Chief Financial Officer and Company Secretary in August 2017. Ms Jones is a qualified Chartered Accountant with over 15 years' experience across financial management, strategic planning, risk management, audit and governance. Prior to joining Orbital, Ms Jones held senior financial management roles with Credit Suisse and Ernst & Young in the United Kingdom and South Africa.

Mr Todd Alder, BEc (Acc), CPA, ACIS (*Resigned as Company Secretary 16 August 2017*)

Joined Orbital as Chief Financial Officer and Company Secretary in December 2016 and appointed as Managing Director and Chief Executive Officer in August 2017. Mr Alder is a highly experienced senior executive and an accomplished leader with a strong background in financial and corporate services management in the mining, steel manufacturing and energy industries.

Mr Ian G Veitch, B.Bus, GradDipACG, ACA, ACIS, AGIA (*Resigned as Company Secretary 14 December 2016, resigned as Chief Financial Officer 18 November 2016*)

Mr Veitch joined Orbital in 2006 and was appointed to the position of Company Secretary on 1 July 2009, and subsequently appointed to the position of Chief Financial Officer on 11 February 2013. He has over 20 years' experience in company secretarial, corporate and financial accounting roles. Mr Veitch holds a Bachelor of Business degree, is a Chartered Accountant and is also a Chartered Secretary. Mr Veitch is a Member of the Institute of Chartered Accountants in Australia, a Member of the Institute of Chartered Secretaries and Administrators, and an Associate of the Governance Institute of Australia.

6. PRINCIPAL ACTIVITIES

Orbital is an innovative industrial technology company. Orbital invents and builds smart technology that delivers improved performance outcomes for our clients in the unmanned aerial vehicle, safety and productivity, engineering services and consumer sectors.

Orbital's UAVE business produces and supplies engine and propulsion systems for unmanned aerial vehicles. Orbital has designed, developed and also undertaken low volume production of an engine management system (EMS) and a next generation propulsion system for Small Unmanned Aircraft Systems (SUAS) utilising Orbital's FlexDI™ technology.

REMSAFE offers a safety rated automated isolation system used on materials handling and process plant.

Changes in nature of activities

There were no significant changes in the nature of the activities of the Group during the year.

7. CONSOLIDATED RESULT

The consolidated loss after income tax for the year attributable to the members of Orbital was \$11,948,000 (2016: profit of \$1,533,000).

8. DIVIDENDS

No dividend has been paid or proposed in respect of the current financial year.

9. STATE OF AFFAIRS

There were no other significant changes in the state of affairs of the Group during the financial year, other than as reported elsewhere in the financial statements.

10. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

11. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Information as to the likely developments in the operations of the Group is set out in the operating and financial review above.

12. SHARE OPTIONS

The Company has no unissued shares under option at the date of this report.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

13. INDEMNIFICATION

Indemnification and insurance of officers

To the extent permitted by law, the Company indemnifies every officer of the Company against any liability incurred by that person:

- (a) in his or her capacity as an officer of the Company; and
- (b) to a person other than the Company or a related body corporate of the Company

unless the liability arises out of conduct on the part of the officer which involves a lack of good faith.

During the year the Company paid a premium in respect of a contract insuring all Directors, Officers and employees of the Company (and/or any subsidiary companies of which it holds greater than 50% of the voting shares) against liabilities that may arise from their positions within the Company and its controlled entities, except where the liabilities arise out of conduct involving a lack of good faith. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance contract as disclosure is prohibited under the terms of the contract.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

14. NON-AUDIT SERVICES

In the reporting period, Ernst & Young, the Company's auditor, performed certain other services in addition to their statutory duties.

The Board considered the non-audit services provided during the reporting period by the auditor and in accordance with advice provided by the management is satisfied that the provision of those non-audit services by the auditor during the reporting period was compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure that they do not impact the integrity and objectivity of the auditor;
- the non-audit services do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, Ernst & Young, and its related practices for audit and non-audit services provided during the year are shown in note 38 to the financial statements.

15. CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Orbital Corporation Limited is responsible for corporate governance. The Board has prepared the Corporate Governance Statement in accordance with the third edition of the ASX Corporate Governance Council's Principles and Recommendations under which the Corporate Governance Statement may be made available on the Company's website.

Accordingly, a copy of the Company's Corporate Governance Statement is available on the Orbital website at www.orbitalcorp.com.au under the About Us/Corporate Governance section.

16. ROUNDING OFF

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise indicated.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017



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Auditor's Independence Declaration to the Directors of Orbital Corporation Limited

As lead auditor for the audit of Orbital Corporation Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Orbital Corporation Limited and the entities it controlled during the financial year.

Ernst & Young

T G Dachs
Partner
29 August 2017

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18. REMUNERATION REPORT - AUDITED

Principles of compensation

This Remuneration Report for the year ended 30 June 2017 outlines the Director and Executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

The remuneration report is presented under the following sections:

- 18.1. Individual Key Management Personnel Disclosures
- 18.2. Remuneration Overview
- 18.3. Remuneration Governance
- 18.4. Non-Executive Director Remuneration Arrangements
- 18.5. Executive Remuneration Arrangements
- 18.6. Company Performance and the Link to Remuneration
- 18.7. Executive Contractual Arrangements
- 18.8. Directors and Executive Officers' Remuneration - Company and Group
- 18.9. Equity Instruments

18.1. INDIVIDUAL KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of KMP of the Group are set out below.

Key management personnel

Position

(i) Directors

John P Welborn
Terry D Stinson

Chairman (Non-Executive) (appointed Chairman 18 March 2015)
Non-Executive Director (Resigned as Chief Executive Officer and Managing Director and appointed as Non-Executive Director 11 August 2017)
(Non-Executive) (became a KMP 12 April 2017)
(Non-Executive) (ceased being a KMP 12 April 2017)

Steve Gallagher
John H Poynton

(ii) Executives

Todd M Alder

Chief Financial Officer (became a KMP 14 December 2016) (appointed as Chief Executive Officer and Managing Director 11 August 2017)

Geoff P Cathcart

Chief Technical Officer

Michael C Lane

Chairman (Executive) – REMSAFE (appointed Chairman 13 October 2016)

Roulé Jones

Chief Financial Officer (became a KMP 16 August 2017)

Ian G Veitch

Chief Financial Officer (ceased being a KMP 18 November 2016)

Charis Law

Chief Commercial Officer (ceased being a KMP 3 May 2017)

18.2. REMUNERATION OVERVIEW

Orbital's remuneration strategy is designed to attract, motivate and retain employees and Non-Executive Directors by identifying and rewarding high performers and recognising the contribution of each employee to the growth and success of the Group.

Executive members of the KMP may receive a short-term incentive (STI) approved by the Board as reward for exceptional performance in a specific matter of importance. STI amounts of \$31,600 were paid during the 2017 financial year (2016: \$130,000).

Long-term incentive (LTI) awards consisting of performance rights that vest based on attainment of pre-determined performance goals are awarded to selected executives. During the financial year, the Company introduced new performance milestones under the Performance Rights Plan as part of its long-term incentive arrangements for the Managing Director and CEO, which were approved by shareholders on 7 November 2016. During the 2017 financial year, the performance hurdle set in October 2014 of increasing the market capitalisation of the Company to over \$60 million was achieved and 900,000 shares vested to three executives.

The remuneration of Non-Executive Directors of the Company consists only of Directors' fees. Director fees were not reviewed or adjusted during the 2017 financial year.

Remuneration report at 2016 AGM

The 2016 Remuneration Report received positive shareholder support at the 2016 AGM with a vote of 97% of votes cast in favour.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18.2. REMUNERATION OVERVIEW (CONTINUED)

Remuneration strategy

Orbital's remuneration strategy is designed to attract, motivate and retain employees and Non-Executive Directors by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

To this end, key objectives of the Company's reward framework are to ensure that remuneration practices:

- Are aligned to the Group's business strategy;
- Offer competitive remuneration benchmarked against the external market;
- Provide strong linkage between individual and Group performance and rewards; and
- Align the interests of executives with shareholders through measuring the Company's market capitalisation.

Key changes to remuneration structure in 2017

There were no changes to the remuneration structure of Executives or Directors during the 2017 financial year.

18.3. REMUNERATION GOVERNANCE

Board

The Board reviews and approves remuneration packages and policies applicable to Directors, the Company Secretary and senior Executives of the Company.

Data is obtained from independent surveys to ensure that compensation throughout the Group is set at market rates having regard to experience and performance. In this regard, formal performance appraisals are conducted at least annually for all employees. Compensation packages may include a mix of fixed compensation, performance-based compensation and equity-based compensation.

Remuneration approval process

The Board approves the remuneration arrangements of the CEO and executives and all awards made under the LTI plan. The Board also sets the aggregate remuneration of Non-Executive Directors which is then subject to shareholder approval.

The Board approves, having regard to the recommendations made by the CEO, the STI bonus plan and any discretionary bonus payments.

Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Directors and Executive remuneration is separate and distinct.

Services from remuneration consultants

From 1 July 2011, all proposed remuneration consultancy contracts (within the meaning of section 206K of the *Corporations Act 2001*) are subject to prior approval by the Board or the Human Resources, Remuneration and Nomination Committee in accordance with the *Corporations Act 2001*.

Did a remuneration consultant provide a remuneration recommendation in relation to any of the KMP for the financial year?	No remuneration recommendation was provided by a remuneration consultant for the 2017 financial year.
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18.4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed against fees paid to Non-Executive Directors of comparable companies. The Board considers advice from external consultants when undertaking the review process.

The Company's constitution and the ASX listing rules specify that the Non-Executive Directors' fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2001 annual general meeting (AGM) held on 25 October 2001 when shareholders approved an aggregate fee pool of \$400,000 per year. The Board will not seek any increase for the Non-Executive Director pool at the 2017 AGM.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18.4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS (CONTINUED)

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment which details remuneration arrangements.

Fees

Non-executive Directors do not receive retirement benefits, nor do they participate in any incentive programs.

The Chairman of the Board receives a fee of \$120,000 (2016: \$120,000) and the Non-Executive directors receive a base fee of \$60,000 (2016: \$120,000).

The remuneration of Non-Executive Directors for the year ended 30 June 2017 and 30 June 2016 is detailed in Section 18.8 of this report.

Are the Non-Executive Directors paid any incentive or equity based payments or termination/retirement benefits?	No. The Non-Executive Directors are not paid any short term incentives, long term incentives, equity based remuneration or termination/retirement benefits
If Non-Executive Directors are paid additional fees, how are these additional fees calculated?	From time to time, Non-Executive Directors may be requested to provide additional Non-Executive Director related services. This could include sitting on a due diligence committee or undertaking a special project for the Group. During the year, no additional fees were paid to any of the Non-Executive Directors.
Are Non-Executive Directors' fees going to increase in FY2018?	The Board has decided not to increase the Directors' fees.

18.5. EXECUTIVE REMUNERATION ARRANGEMENTS

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and aligned with market practice. The Group undertakes an annual remuneration review to determine the total remuneration positioning against the market.

Structure

The CEO's remuneration mix for FY2017 comprised 82% fixed remuneration and 18% LTI. The LTI value is the total accounting expense associated with the grant made during the financial year. Key Management Personnel's remuneration mix for FY2017 ranged from 85-100% fixed remuneration, 0-10% STI and 0-5% LTI opportunity.

In the 2017 financial year, the executive remuneration framework consisted of the following components:

- Fixed remuneration
- Variable remuneration (STI and LTI)

The table below illustrates the structure of Orbital's executive remuneration arrangements:

Table 1 – Structure of remuneration arrangements

Remuneration component	Vehicle	Purpose	Link to company performance
Fixed compensation	<ul style="list-style-type: none"> • Represented by total fixed remuneration (TFR). • Comprises base salary, superannuation contributions and other benefits. 	<ul style="list-style-type: none"> • Set with reference to role, market and experience. • Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. 	<ul style="list-style-type: none"> • No direct link to company performance.
STI component (discretionary)	<ul style="list-style-type: none"> • Paid in cash 	<ul style="list-style-type: none"> • Rewards executives for their contribution to achievement of Group outcomes. 	<ul style="list-style-type: none"> • Discretionary award by the Board to reward Executives for exceptional performance in a specific area of importance.
LTI component	<ul style="list-style-type: none"> • Awards are made in the form of performance rights. 	<ul style="list-style-type: none"> • Rewards executives for their contribution to the creation of shareholder value over the longer term through growth in the Company's market capitalisation. 	<ul style="list-style-type: none"> • Vesting of awards is dependent on Orbital Corporation Limited's market capitalisation.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18.5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Executive contracts of employment do not include any guaranteed base pay increases. TFR is reviewed annually by the Board. The process consists of a review of Company, business unit and individual performance, relevant comparative remuneration internally and externally and, where appropriate, external advice independent of management.

The fixed component of executives' remuneration is detailed in Section 18.8.

Variable remuneration — short-term incentive (STI) (discretionary)

The table below contains a summary of the key features of the STI plan.

What is the STI?	Executive Directors and senior executives may from time-to-time receive a discretionary cash bonus approved by the Board as a retrospective reward for exceptional performance in a specific matter of importance.
When is the STI grant paid?	There are no pre-determined timeframes at which assessments for STI rewards are to be undertaken.
How does the Company's STI structure support achievement of the Company's strategy?	The STI rewards executives for their contribution to the achievement of Group outcomes in areas of significant importance not addressed by the pre-determined performance criteria of the LTI.
How are the performance conditions of the STI determined?	The Board has no pre-determined performance criteria against which the amount of a STI is assessed.
What are the maximum possible values of award under the STI plan?	There are no pre-determined maximum possible values of award under the STI scheme. In assessing the value of an STI award to be granted the Board will give consideration to the contribution of the action being rewarded to the success of the Group.
What was the value of STI paid in the financial year?	Discretionary STI cash bonuses of \$31,600 were paid during the 2017 financial year. Discretionary STI cash bonuses of \$130,000 were paid during the 2016 financial year.
Is a portion of STI deferred?	No discretionary STI cash bonuses relating to the 2017 or 2016 financial years will become payable in future financial years.

Variable remuneration — long-term incentive (LTI)

LTI awards are made to executives in order to align remuneration with the creation of shareholder value over the long-term. As such, LTI awards are only made to executives and other key talent who have an impact on the Group's performance against the relevant long-term performance measure.

Employee Share Plan No.1

Senior executives (together with all other eligible employees) are each offered shares in the Company, at no cost to the employees, to the value of \$1,000 per annum under the terms of the Company's Employee Share Plan. There are no performance conditions, because the plan is designed to align the interests of participating employees with those of shareholders. Directors do not participate in Employee Share Plan No.1.

Performance Rights Plan

The table below contains a summary of the key features of the Performance Rights Plan (PRP).

What is the PRP?	The PRP is a performance based share plan under which offered shares will vest for no consideration subject to the satisfaction of performance conditions over a 3 year period or subject to Board discretion for other qualifying reasons.
How does the PRP align the interests of shareholders and executives?	The PRP links rewards for the executive KMP to the Company's strategy to grow shareholder value by increasing the Company's market capitalisation. The Company's market capitalisation on the date of calling the AGM to approve the current PRP was \$67.2 million. Vesting of shares only occurs if Orbital increases its market capitalisation to \$125 million and \$200 million respectively. Vesting of shares relating to the prior PRP (2015) occurred during the financial year as Orbital increased its market capitalisation to \$60 million. The Company's market capitalisation on the date of calling the AGM to approve the prior (2015) PRP was \$9.4 million.
How does the PRP support the retention of executives?	An objective of offering shares under the PRP is to promote retention. At any one time, an executive KMP will have unvested rights. If an executive resigns they would forfeit the benefits of those unvested rewards. This provides a valuable incentive to stay with the Company so long as the shares are seen by the executive KMP as likely to vest within the performance period.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18.5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Variable remuneration — long-term incentive (LTI) (continued)

What are the principal terms of the issue made under the LTI in FY2017?	<ul style="list-style-type: none"> • Grant date: 8 November 2016 (following the AGM at which the Terms of the plan were approved by shareholders). • Life: 3 years. • Expiry date: 7 November 2019. • Market capitalisation on grant date: \$71.9 million. • Performance timeframes and targets: <ul style="list-style-type: none"> ◦ Tranche 1: \$125 million and a price of \$1.50 per share for 30 consecutive days, expiring 24 months from the date of issue ◦ Tranche 2: \$200 million and a price of \$2.00 per share for 30 consecutive days, expiring 36 months from the date of issue • Exercise Price: nil. • Fair value per right: <ul style="list-style-type: none"> ◦ Tranche 1: 50.0 cents ◦ Tranche 2: 42.0 cents
What are the principal terms of the issue made under the LTI in FY2015?	<ul style="list-style-type: none"> • Grant date: 22 October 2014 (following the AGM at which the Terms of the plan were approved by shareholders). • Life: 3 years. • Expiry date: 22 October 2017. • Market capitalisation on grant date: \$14.8 million. • Performance timeframes and targets: <ul style="list-style-type: none"> ◦ Tranche 1: \$20 million within 18 months ◦ Tranche 2: \$35 million within 24 months ◦ Tranche 3: \$60 million within 36 months • Exercise Price: nil. • Fair value per right: <ul style="list-style-type: none"> ◦ Tranche 1: 23.1 cents ◦ Tranche 2: 17.5 cents ◦ Tranche 3: 15.3 cents
What are the performance conditions for the vesting of LTIs?	The performance conditions, which are based 100% on market capitalisation, apply to determine the number of shares (if any) that vest to the Executives.
How is the market price of the PRP determined?	The fair value of the PRP related rights is calculated at the date of grant through utilisation of the assumptions underlying at the grant date of 8 November 2016 (FY2017 PRP) and 22 October 2014 (FY2015 PRP) using the "Hoadley Barrier 1" trinomial option valuation model.
In what circumstances would the LTI entitlements be forfeited?	Where a participant ceases employment prior to the vesting of their award, the unvested shares are forfeited unless the Board applies its discretion to allow vesting at or post cessation of employment in appropriate circumstances.
What happens to LTI entitlements upon a change of control in the Group?	In the event of a change of control of the Group, the performance period end date will generally be brought forward to the date of the change of control and awards will vest.
Do shares granted under the LTI dilute existing shareholders' equity?	The issue of shares can have a small dilutionary impact upon other shareholders. However, the number of shares issued under the PRP in the five years preceding the offer must not exceed 5% of the total shares on issue at the time an offer to a participant is made.
Are the shares issued under the LTI bought on market?	No. The Company issues new shares for the PRP; it does not buy the shares on the market.
Does the executive obtain the benefit of dividends paid on shares issued under the LTI?	KMP are entitled to any dividends paid on vested shares. Unvested rights do not participate in dividend payments or any other distributions to shareholders.
What other rights does the holder of vested LTI shares have?	The holder of the shares has the same rights as any other holder of shares. This includes voting rights, a right to dividends, bonus shares and capital distributions.
Does the Company have executive share ownership guidelines?	The Company does not have a formal policy requiring executives to own shares. However a significant component of each executive's remuneration consists of grants under an employee share plan. Hence, at any given time, after an executive has been with the Company for more than three years, the executive typically has three unvested equity grants which are subject to performance conditions. As at the date of this report, all executives who have been with the company for longer than three years have shares in the Company which have fully vested or been acquired on market.
Can executive KMP hedge to ensure that they obtain a benefit from unvested LTI's?	No. All executive KMP have been advised that under section 206J of the <i>Corporations Act 2001</i> it is an offence for them to hedge unvested grants made under the PRP.
How many LTI awards vested in the financial year?	900,000 Performance Rights in relation to Tranche 3 of the 2015 award vested in FY2017.
Is a portion of LTI deferred?	No. Vested Performance Rights are issued to KMP without restriction.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18.5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

LTI awards for 2017 financial year

Shares were granted under the Employee Share Plan No.1 to a number of executives on 23 November 2016.

The Company introduced new performance milestones under the Performance Rights Plan as part of its long-term incentive arrangements for the Managing Director and CEO, which were approved by shareholders on 7 November 2016.

Details in respect of the award are provided in Section 18.9.

18.6. COMPANY PERFORMANCE AND THE LINK TO REMUNERATION

Performance linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The STI is an "at risk" bonus provided in the form of cash, while the LTI is provided as ordinary shares of Orbital Corporation Limited under the rules of the Performance Rights Plan.

In considering the Group's performance and benefits for shareholders wealth the Board has regard to the following indices in respect of the current financial year and the previous four financial years.

Company performance and its link to long-term incentives

The performance measure which drives LTI vesting in future years is the Company's market capitalisation. The table below show the closing share price and market capitalisation for the past five years (including the current period) to 30 June 2017.

Company performance for the current year and last 4 years is as follows:

Table 2 – Orbital five year performance linked to long-term incentives

	2013	2014	2015	2016	2017
Closing share price (\$)	0.15	0.16	0.49	0.695	0.50
Market capitalisation (\$m)	7.4	7.9	24.0	52.4	38.6
Earnings per share (cents)	0.74	3.39	(9.83)	2.73	(15.55)

The Performance Target for the third tranche of the FY2015 PRP was met during FY2017 and as a result 900,000 shares were issued.

18.7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below.

Chief Executive Officer

Mr Stinson was employed as Managing Director and CEO during the year, with Mr Alder transitioning into this role on 11 August 2017. Mr Alder's material terms of employment were announced to the ASX on 11 August 2017 ("Managing Director & CEO Succession").

Under the terms of Mr Stinson's Managing Director and CEO rolling contract as disclosed to the ASX on 14 September 2007:

- ▶ Mr Stinson received fixed remuneration of \$400,000 per annum.
- ▶ Mr Stinson is eligible to participate in Orbital Corporation Limited's LTI plan on terms determined by the Board, subject to receiving any required or appropriate shareholder approval.

The CEO's termination provisions are as follows:

Table 3 – Summary of contractual provisions for the CEO

	Notice Period	Payment in lieu of notice	Treatment of LTI on termination	Termination payments
Employer initiated termination	12 months	12 months	Board discretion	None
Termination for serious misconduct	None	None	Unvested awards forfeited	None
Employee-initiated termination	3 months	3 months	Unvested awards forfeited	None

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18.7. EXECUTIVE CONTRACTUAL ARRANGEMENTS (CONTINUED)

Other KMP

All other KMP have rolling contracts. Standard KMP termination provisions are as follows:

Table 4 – Summary of KMP termination provisions

	Notice Period	Payment in lieu of notice	Treatment of LTI on termination	Termination payments
Employer initiated termination	3 months	3 months	Board discretion	<p><i>Pre-31 December 2014 KMP</i></p> <p>4 weeks' pay, plus 2 weeks' pay for each completed year of service, plus for each completed year of service beyond 10, an additional ½ weeks' pay, plus a pro-rata payment for each completed month of service in the final year. The maximum entitlement to termination pay is limited to 65 weeks' pay.</p> <p><i>Post 31 December 2014 KMP</i></p> <p>In accordance with Section 119 of the <i>Fair Work Act 2009</i> (Cwth).</p>
Termination for serious misconduct	None	None	Unvested awards forfeited	None
Employee-initiated termination	3 months	3 months	Unvested awards forfeited	None

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18.8. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION – COMPANY AND GROUP

Details of the nature and amount of each major element of remuneration of the Company and the Group's Key Management Personnel are:

Table 5 – Compensation of KMP for the years ended 30 June 2017 and 2016

	Year	Short-term Benefits			Total	Post-Employment			Long-term Benefits		Share Based Payments		Total	Proportion of remuneration performance related
		Salary & Director's Fees	Cash Bonuses	Non-monetary		Employee Superannuation Contributions	Termination Payments	Leave Entitlements	Employee Share Plans	Performance Rights Plan				
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	
Non-Executive Directors														
John P Welborn	2017	109,589	-	-	109,589	10,411	-	-	-	-	-	120,000	-	
Chairman and Director (Non-executive)	2016	109,589	-	-	109,589	10,411	-	-	-	-	-	120,000	-	
Steve Gallagher (a)	2017	11,916	-	-	11,916	1,251	-	-	-	-	-	13,167	-	
Director (Non-Executive)	2016	-	-	-	-	-	-	-	-	-	-	-	-	
John H Poynton (b)	2017	88,514	-	-	88,514	8,409	-	-	-	-	-	96,923	-	
Director (Non-Executive)	2016	109,589	-	-	109,589	10,411	-	-	-	-	-	120,000	-	
Total Consolidated, all Non-Executive Directors	2017	210,019	-	-	210,019	20,071	-	-	-	-	-	230,090	-	
	2016	219,178	-	-	219,178	20,822	-	-	-	-	-	240,000	-	
Executive Director														
Terry D Stinson	2017	349,147	-	17,349	366,496	36,526	-	5,000	-	-	-	86,579	494,601	17.5%
Director and Chief Executive Officer	2016	349,147	100,000	17,349	466,496	33,169	-	9,605	-	-	-	77,184	586,454	30.2%
Other Key Management Personnel														
Todd M Alder (c)	2017	133,960	-	-	133,960	9,924	-	2,767	-	-	-	146,652	-	
Chief Financial Officer	2016	-	-	-	-	-	-	-	-	-	-	-	-	-
Geoff P Garbhart	2017	254,870	25,000	5,089	284,959	32,392	-	2,860	1,000	-	-	10,931	332,142	10.8%
Chief Technical Officer	2016	222,332	-	35,630	257,962	26,885	-	7,768	1,000	-	-	30,874	324,489	9.5%
Michael C Lane (d)	2017	231,962	-	-	231,962	21,576	19,026	83,275	1,000	-	-	356,839	-	
Chairman - REMSAFF	2016	253,001	-	-	253,001	21,749	-	4,510	1,000	-	-	280,260	-	
Ian G Veitch (e)	2017	87,620	6,600	-	94,220	14,204	76,294	70,034	1,000	-	-	10,931	266,663	6.6%
Chief Financial Officer	2016	221,177	30,000	-	251,177	21,012	-	4,855	1,000	-	-	30,874	308,918	19.7%
Charis Law (f)	2017	195,820	-	-	195,820	18,603	74,640	9,166	-	-	-	298,229	-	
Chief Commercial Officer	2016	41,284	-	-	41,284	3,922	-	87	-	-	-	45,293	-	
Total Consolidated, Executive Director and Key Management Personnel	2017	1,253,379	31,600	22,438	1,307,418	133,225	169,960	173,101	3,000	-	-	108,441	1,895,145	7.5%
	2016	1,086,941	130,000	52,979	1,269,920	106,737	-	26,825	3,000	-	-	138,932	1,545,414	17.4%

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18.8. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION – COMPANY AND GROUP (CONTINUED)

Notes in relation to the table of Directors' and Executive officers remuneration

- (a) Mr Gallagher became a Director on 12 April 2017
- (b) Mr Poynton ceased as a Director on 12 April 2017
- (c) Mr Alder became a KMP on 14 December 2016
- (d) Mr Lane changed roles as CEO of REMSAFE to Executive Chairman on 13 October 2016
- (e) Mr Veitch ceased as a KMP on 18 November 2016
- (f) Ms Law ceased as a KMP on 3 May 2017
- (g) The fair value of the Employee Share Plan #1 is based upon the market value (at offer date) of shares offered.
- (h) The value disclosed is the portion of the fair value of the rights recognised in this reporting period. In valuing the rights the market based hurdles that must be met before the executive long term share plan rights vest in the holder have been taken into account. The fair value of the Performance Rights was calculated at the date of grant through using the "Hoadley Barrier 1" trinomial option valuation model and allocated to each reporting period evenly over the period from grant date to expected vesting date.

Table 6 – Summary of terms and conditions of 2017 performance rights

Grant Date	Life	Number of Rights Granted	Number of Rights Vested	Fair Value Per Right	Target Market Capitalisation	Market Capitalisation on Grant Date	Expected Volatility	Risk Free Interest Rate
8-Nov-17	24 months	200,000	-	50.0 cents	\$125m	\$71.9m	65.00%	1.66%
8-Nov-17	36 months	300,000	-	42.0 cents	\$200m	\$71.9m	65.00%	1.70%

Table 7 – Summary of terms and conditions of 2015 performance rights

Grant Date	Life	Number of Rights Granted	Number of Rights Vested	Fair Value Per Right	Target Market Capitalisation	Market Capitalisation on Grant Date	Expected Volatility	Risk Free Interest Rate
22-Oct-14	18 months	900,000	900,000	23.1 cents	\$20m	\$14.8m	80.00%	2.45%
22-Oct-14	24 months	900,000	900,000	17.5 cents	\$35m	\$14.8m	80.00%	2.45%
22-Oct-14	36 months	900,000	900,000	15.3 cents	\$60m	\$14.8m	80.00%	2.51%

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18.9. EQUITY INSTRUMENTS

All shares refer to ordinary shares and rights of Orbital Corporation Limited.

Analysis of Shares and rights offered as Compensation

Details of the shares and rights offered under the LTI to each key management person during the reporting period are as shown below.

Table 8 – Summary of KMP executives interests in equity instruments

Employee Share Plan No. 1					Performance Rights Plan					
		Number of shares issued	Share Price	Value (a) \$	Number of Rights Offered	Value of Rights Offered (b) \$	Number of Rights Vested	Number of Rights Forfeited	Number of Rights Expired	Number of Rights Cancelled
Executive Director										
Mr TD Stinson	2017	-	-	-	500,000	59,252	500,000	-	-	-
Other KMP										
Mr TM Alder	2017	-	-	-	-	-	-	-	-	-
Dr GP Cathcart	2017	1,085	\$0.9217	1,000	-	-	200,000	-	-	-
Mr MC Lane	2017	1,085	\$0.9217	1,000	-	-	-	-	-	-
Mr IG Veitch	2017	1,085	\$0.9217	1,000	-	-	200,000	-	-	-
Ms C Law	2017	-	-	-	-	-	-	-	-	-

(a) The fair value of the employee Share Plan No. 1 based upon the market value (at offer date of 31 October 2016) of shares offered. These awards are fully vested.

(b) Represents the fair value of rights offered on 8 November 2016 using the "Hoadley Barrier 1" trinomial option valuation model for the Performance Rights.

Table 9 – Movement of KMP executives interests in LTI equity rights

	Number Held at 1-Jul-16	Number Offered	Number Forfeited	Number Expired	Number Cancelled	Number Vested	Number Held at 30-Jun-17	Number Not Exercisable
Executive Director								
Mr TD Stinson	500,000	500,000	-	-	-	(500,000)	500,000	500,000
Other KMP								
Mr TM Alder	-	-	-	-	-	-	-	-
Dr GP Cathcart	200,000	-	-	-	-	(200,000)	-	-
Mr MC Lane	-	-	-	-	-	-	-	-
Mr IG Veitch	200,000	-	-	-	-	(200,000)	-	-
Ms C Law	-	-	-	-	-	-	-	-

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

18.9. EQUITY INSTRUMENTS (CONTINUED)

Table 10 – Movement of KMP interests in shares

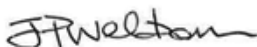
	Number Held at 1-Jul-16	Number of Shares Purchased	Number Granted as compensation		Number of Shares Sold	Number Held at 30-Jun-17
			ESP #1	Vested PRP		
<u>Non-Executive Directors</u>						
Mr JP Welborn	679,103	-	-	-	-	679,103
Mr S Gallagher	-	-	-	-	-	-
Mr JH Poynton	2,790,688	-	-	-	(2,790,688)	-
<u>Executive Director</u>						
Mr TD Stinson	1,172,621	-	-	500,000	-	1,672,621
<u>Other KMP</u>						
Mr TM Alder	-	-	-	-	-	-
Dr GP Cathcart	71,635	-	1,085	200,000	-	272,720
Mr MC Lane	126,678	-	1,085	-	-	127,763
Mr IG Veitch	30,515	-	1,085	200,000	(231,600)	-
Ms C Law	-	-	-	-	-	-

Loans to key management personnel and their related parties

The Group has not made any loans to key management personnel or their related parties since the end of the previous financial year and there were no loans to any key management personnel or their related parties at year-end.

End of Remuneration Report

Signed in accordance with a resolution of the Directors:



J P Welborn
Chairman



T M Alder
Managing Director & Chief Executive Officer

Dated at Perth, Western Australia this 29th day of August 2017.

STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2017

		CONSOLIDATED	
	Notes	2017 \$'000	2016 \$'000
Continuing operations			
Sale of goods		10,569	3,139
Engineering services income		2,884	7,704
Royalty and licence income		802	789
Other revenue	6	115	119
Total Revenue		14,370	11,751
Other income	7	3,440	11,452
Materials and consumables expenses	8(d)	(3,394)	(1,143)
Employee benefits expenses	8(a)	(13,102)	(9,770)
Depreciation and amortisation expenses		(579)	(560)
Engineering consumables and contractors expenses		(1,170)	(4,627)
Impairment of goodwill	19	(5,218)	-
Occupancy expenses		(1,385)	(1,321)
Travel and accommodation expenses		(403)	(224)
Communications and computing expenses		(503)	(473)
Patent expenses		(513)	(360)
Insurance expenses		(529)	(564)
Audit, compliance and listing expenses		(440)	(621)
Finance costs	8(b)	(540)	(1,419)
Other expenses	8(c)	(2,311)	(951)
Share of profit from associate	16(c)	-	1,529
(Loss)/Profit before income tax from continuing operations		(12,277)	2,699
Income tax benefit/(expense)	9(a)	26	(1,416)
(Loss)/Profit for the year from continuing operations		(12,251)	1,283
Discontinued operations			
Loss after tax for the year from discontinued operations	29	-	(68)
(Loss)/Profit for the year		(12,251)	1,215
Attributable to:			
Equity holders of the Parent		(11,948)	1,533
Non-controlling interests		(303)	(318)
		(12,251)	1,215
Earnings per share			
	10	cents	cents
Basic (loss)/profit for the year attributable to ordinary equity holders of the Parent		(15.55)	2.73
Diluted (loss)/profit for the year attributable to ordinary equity holders of the Parent		(15.55)	2.73
Earnings per share from continuing operations			
Basic (loss)/profit for the year attributable to ordinary equity holders of the Parent		(15.55)	2.85
Diluted (loss)/profit for the year attributable to ordinary equity holders of the Parent		(15.55)	2.85

The Statement of Profit or Loss is to be read in conjunction with the notes to the financial statements set out on pages 25 to 69.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Net (loss)/profit for the year	(12,251)	1,215
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Share of foreign currency reserve of equity accounted investment	-	290
Foreign currency translation	-	1,417
Foreign currency translation reserve released on sale of investment in associate	-	(3,607)
Other comprehensive loss for the period, net of tax	-	(1,900)
Total comprehensive loss for the year	(12,251)	(685)
Attributable to:		
Equity holders of the Parent	(11,948)	(367)
Non-controlling interests	(303)	(318)
Total comprehensive loss for the year	(12,251)	(685)

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 25 to 69.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Share Capital	Retained Profits/ (Accumulated Losses)	Employee Equity Benefits Reserve	Foreign Currency Translation Reserve	Contingent Consideration	Consolidation Reserve	Convertible Note Reserve	Total	Non- controlling Interests	Total Equi
	Note 25	Note 26(a)	Note 26(b)	Note 26(b)	Note 26(b)	Note 26(b)	Note 26(b)	Note 26(b)	Note 27(b)	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'00
At 1 July 2015	20,021	(2,500)	1,807	1,900	-	(670)	248	20,806	1,136	21,942
Profit/(loss) for period	-	1,533	-	-	-	-	-	1,533	(318)	1,215
Foreign currency translation	-	-	-	1,707	-	-	-	1,707	-	1,707
Foreign currency translation reserve released on sale of investment in associate	-	-	-	(3,607)	-	-	-	(3,607)	-	(3,607)
Other comprehensive loss	-	-	-	(1,900)	-	-	-	(1,900)	-	(1,900)
Total comprehensive income/(loss) for the period	-	1,533	-	(1,900)	-	-	-	(367)	(318)	(685)
Convertible note conversions	9,136	-	-	-	-	-	-	9,136	-	9,136
Convertible note interest paid in shares	679	-	-	-	-	-	-	679	-	679
Share based payments	215	-	(19)	-	-	-	-	196	-	196
Balance at 30 June 2016	30,051	(967)	1,788	-	-	(670)	248	30,450	818	31,268
At 1 July 2016	30,051	(967)	1,788	-	-	(670)	248	30,450	818	31,268
Loss for period	-	(11,948)	-	-	-	-	-	(11,948)	(303)	(12,251)
Other comprehensive income/(loss)	-	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	(11,948)	-	-	-	-	-	(11,948)	(303)	(12,251)
Acquisition of non-controlling interests	860	-	-	-	3,440	(3,785)	-	515	(515)	-
Share based payments	195	-	(29)	-	-	-	-	166	-	166
Balance at 30 June 2017	31,106	(12,915)	1,759	-	3,440	(4,455)	248	19,183	-	19,183

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 25 to 69.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	CONSOLIDATED	
		2017 \$'000	2016 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	11	17,131	24,872
Other financial assets	12(a)	2,634	1,434
Trade and other receivables	14	6,465	6,009
Inventories	15	3,280	4,248
Total current assets		29,510	36,563
Non-current assets			
Deferred taxation asset	17	5,507	5,482
Plant and equipment	18	1,497	1,925
Intangibles and goodwill	19	-	5,218
Total non-current assets		7,004	12,625
TOTAL ASSETS		36,514	49,188
LIABILITIES			
Current liabilities			
Trade payables and other liabilities	20	6,498	6,454
Borrowings	12(b)	860	717
Employee benefits	22(a)	1,558	2,154
Government grants	23	225	225
Other provisions	24(a)	477	57
Total current liabilities		9,618	9,607
Non-current liabilities			
Long term borrowings	12(b)	7,242	7,562
Employee benefits	22(b)	36	42
Government grants	23	299	524
Other provisions	24(b)	136	185
Total non-current liabilities		7,713	8,313
TOTAL LIABILITIES		17,331	17,920
NET ASSETS		19,183	31,268
EQUITY			
Share capital	25	31,106	30,051
Reserves	26(b)	992	1,366
Accumulated losses	26(a)	(12,915)	(967)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		19,183	30,450
Non-controlling interests		-	818
TOTAL EQUITY		19,183	31,268

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 25 to 69.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	CONSOLIDATED	
		2017 \$'000	2016 \$'000
Cash flows from Operating Activities			
Cash receipts from customers		13,155	22,689
Cash paid to suppliers and employees		(18,003)	(27,618)
Interest received		115	124
Interest paid		(30)	(188)
Income taxes paid		(90)	(88)
Net cash used in operating activities	32	(4,853)	(5,081)
Cash flows from Investing Activities			
Net proceeds from sale of share in investment		-	24,185
Purchase of financial instruments		(2,465)	-
Net proceeds from sale of property, plant & equipment		29	67
Purchase of property, plant & equipment		(170)	(284)
Investment in short term deposit		697	-
Acquisition of subsidiary		-	(66)
Cash associated with sale of disposal group	29	-	(850)
Net cash (used in)/provided by investing activities		(1,909)	23,052
Cash flows from Financing Activities			
Repayment of borrowings		(717)	(597)
Net cash used in financing activities		(717)	(597)
Net decrease in cash and cash equivalents		(7,479)	17,374
Cash and cash equivalents at 1 July		24,872	7,499
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(262)	(1)
Cash and cash equivalents at 30 June	32	17,131	24,872

Non-Cash Investing and Financing Activities

During the year ended 30 June 2017, there were non-cash financing activities of \$nil (2016:\$9,136,000 from the early redemption of Convertible notes outstanding as at 29 February 2016). There were no non-cash investing activities for the year ended 30 June 2017 (2016: \$nil).

Refer to note 5 for details of non-cash operating items.

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 25 to 69.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1. REPORTING ENTITY

The consolidated financial statements of Orbital Corporation Limited ("the Company" or "the Parent") and its subsidiaries (collectively, "the Group") were authorised for issue by the Company's Directors on 29 August 2017. The Company is a for-profit company limited by shares domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange ("ASX"). The registered office of the Group is 4 Whipple Street, Balcatta, Western Australia.

The Group is principally engaged in the provision of smart technology that delivers improved performance outcomes in the unmanned aerial vehicle, safety and productivity and consumer sectors. Further information on the nature of the operations and principal activities of the Group is provided in the Directors' Report and note 5. Information on the Group's structure is provided in Note 27.

2. BASIS OF PREPARATION

(a) Statement of Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the AASB.

The consolidated financial statements have also been prepared on the historical cost basis, except for investment in marketable securities which are measured at fair value.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise indicated.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the entities within the Group.

(d) Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year. From 1 July 2016, the Group has adopted all the standards and interpretations effective as at 1 July 2016. Adoption of these standards and interpretations did not have a material impact on the Group. The Group has not elected to early adopt any new standards or amendments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are all those entities over which the Group has control.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Consolidated Entity controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company.

(ii) Associate

The Group accounts for investments in associates using the equity method of accounting in the consolidated financial statements. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Consolidation (continued)

(iii) Transactions eliminated on consolidation

Intra-Group balances, and any unrealised gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity with adjustments made to the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold or, if not consumed or sold, when the Group's interest in such entities is disposed of.

(c) Foreign Currency

(i) Foreign currency transactions

Transactions in foreign currencies are converted to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date (except those representing the Group's net investment in subsidiaries and its associate see below) are retranslated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in the statement of profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars, applying the step by step method, at exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity described as 'foreign currency translation reserve'. They are released into the statement of profit or loss upon disposal.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of balances representing the net investment in foreign operations are taken to the foreign currency translation reserve.

(d) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expires or if the Group transfers the financial asset to another party without retaining either control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents - refer note 11

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Other financial assets - refer note 12 (a)

Other financial assets comprise of term deposits with financial institutions with maturities between 90 days and 365 days and Financial assets at fair value through profit and loss. Subsequent to initial recognition other term deposits are stated at amortised cost. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value represented as other expense (negative net changes in fair value) or other income (positive net changes in fair value) in the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial Instruments (continued)

(i) Non-derivative financial instruments (continued)

Trade and other receivables - refer note 14

Subsequent to initial recognition, trade receivables are stated at their amortised cost, less impairment losses. Normal settlement terms are 30 to 60 days. The collectability of debts is assessed at balance date and specific allowance is made for any doubtful accounts. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

Trade and other payables - refer note 20

Liabilities are recognised for amounts due to be paid in the future for goods or services received. Subsequent to initial recognition, trade and other payables are stated at their amortised cost.

Trade payables are non-interest bearing and are normally settled on 30-day terms.

Long term borrowings - refer note 12 (b)

Included in current and non-current liabilities is an amount owing to the Government of Western Australia resulting from a loan restructured in January 2010.

The non-interest bearing loan from the Government of Western Australia was recognised initially at fair value and subsequently stated at amortised cost using the effective interest method. The difference between the fair value and face value of the loan on initial recognition is accounted for as a government grant as disclosed in note 12(b).

(e) Inventories – refer note 15

Inventories are carried at the lower of cost and net realisable value. Inventory is valued at weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition, which for finished goods and work in progress includes cost of direct materials and direct manufacturing labour.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Plant and Equipment – refer note 18

(i) Recognition and measurement

Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation and amortisation

Items of plant and equipment are depreciated/amortised on a straight line basis over their estimated useful lives from the date of its acquisition. Plant and equipment are depreciated at 6.67% to 33.3% per year.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(iv) Asset sales

The net profit or loss from asset sales are included as other income or expenses of the Group. The profit or loss on disposal of assets is brought to account at the date that an unconditional contract of sale is signed. The profit or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Intangibles and goodwill – refer note 19

(i) *Research and Development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of profit or loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

Expenditure on intangibles which may be capitalised includes the cost of materials and direct labour. Other development expenditure is recognised in the statement of profit or loss as an expense as incurred. Capitalised expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

(ii) *Patents, licences and technologies*

Patents, licences and technology development and maintenance costs, not qualifying for capitalisation, are expensed as incurred.

(iii) *Goodwill*

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

When the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a CGU (group of CGUs) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses recognised for goodwill are not subsequently reversed.

(iv) *Customer contract based intangible assets*

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The cost of customer contracts acquired in a business combination is their fair value at the acquisition date. Following initial recognition, customer contracts are carried at fair value less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of when the benefits are expected to be received from such contracts which ranges from 6 months to 2 years.

(h) Impairment

(i) *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment (continued)

(i) *Financial assets (continued)*

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

(i) **Share Capital – refer note 25**

(i) *Issued capital*

Share capital is recognised at the fair value of the consideration received.

(ii) *Treasury shares*

Own equity instruments that are reacquired are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(iii) *Dividends*

Dividends are recognised as a liability in the period in which they are declared.

(iv) *Transaction costs*

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(j) **Employee Benefits**

(i) *Short-term benefits - refer note 22*

The provisions for employee entitlements expected to be wholly settled within 12 months of year end represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on employee benefits that the Group expects to pay as at the reporting date including related on-costs, such as workers' compensation and payroll tax. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee Benefits (continued)

(ii) Long service leave - refer note 22

The provision for employee entitlements are measured at the present value of the estimated future cash outflow to be made to the employees using the projected unit credit method. Liabilities expected to be wholly settled within one year after the end of the period in which the employees render the related services are classified as short-term benefits and are measured at the amount due to be paid.

The provision for long service leave is measured at the present value of benefits accumulated up to the end of the reporting period. The liability is discounted using an appropriate discount rate. Management requires judgement to determine key assumptions used in the calculation including future increases in salaries and wages, future on-cost rates and future settlement dates of employees' departures.

(iii) Defined Contribution Superannuation Fund - refer note 34

Obligations for contributions to the defined contribution superannuation fund are recognised as an expense in the statement of profit or loss as incurred.

(iv) Share-based payment transactions - refer note 33

Employees have been offered the right to take up shares in the Company under two plans:

(i) Employee Share Plan No.1 and; (ii) Executive Long Term Incentive Plan.

The cost of equity settled employee benefits is recognised in employee benefits expense, together with a corresponding increase in equity, over the period in which the service and performance conditions are fulfilled.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the condition being met is assessed as part of the Groups best estimate of the number of shares that will vest. Market performance conditions are reflected within grant date fair value.

(k) Provisions – refer note 24

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provision for warranty is recognised when the underlying products are sold. The provision is based on historical claim data and management's judgement in respect of the expected performance of the product.

(l) Revenue Recognition

Revenues are recognised and measured at the fair value of the consideration received net of the amount of Goods and Services Tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

(i) Revenue from rendering of Services

Revenue from engineering services is recognised by reference to the stage of completion. Stage of completion is measured by reference to total labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Revenue received in advance represents cash payments received from customers in accordance with contractual commitments prior to the performance of the service.

(ii) Sale of goods

Revenue from the sale of goods is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Revenue Recognition (continued)

(iii) Licence and royalties

Revenue earned under various licence, royalty and other agreements is recognised on an accrual basis upon the satisfactory completion of contracted technical specifications. Additional revenue may be earned after a fixed time interval or after delivery of a prototype engine and/or hardware meeting specified performance targets, provided the licence agreements are not terminated. Under the terms of the licence agreements, licensees are not specifically obliged to commence production and sale of engines using Orbital Technology and may terminate the agreements upon notice to Orbital. If a licensee were to terminate its licence agreement with Orbital, the licensee would forfeit the licence and any technical disclosure fees paid through to the date of termination. Revenue under royalty agreements is recognised when such amounts become due and payable.

(iv) Interest revenue

Revenue is recognised as interest accrues using the effective interest method.

(v) Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(m) Operating Leases

Payments made under operating leases are recognised in the statement of profit or loss on a straight-line basis over the term of the lease.

(n) Finance Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(o) Income Tax – refer note 9

(i) Current income tax expense and liability

Income tax on the profit or loss for the year presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred income tax expense and liability

Deferred tax is provided using the full liability balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Orbital Corporation Limited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Operating Segments – refer note 5

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's executive management team (the chief operating decision maker) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the executive management team.

(q) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amounts of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(r) Earnings Per Share – refer note 10

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(s) Government Grants – refer note 23

Government grants are recognised in the statement of financial position as a liability when the grant is received. Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants received on compensation for expenses and losses already incurred or for the purpose of giving immediate financial support are recognised immediately in profit and loss for the period.

When the grant relates to a discount on services to be rendered in the future, the fair value is credited to deferred revenue and is released to the statement of profit or loss over the periods that the discounted services are rendered.

When the grant relates to an asset (investment grants relating to the construction of a heavy duty engine test facility), the fair value is credited to deferred income and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

(t) Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Business Combinations (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be a financial asset or financial liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. The Group has classified contingent consideration arising in the current period as equity. Refer note 4 for details of accounting judgments considered for equity classification.

(u) Assets held for sale and discontinued operations – refer note 29

The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally through sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs attributable to the sale excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected to be completed within one year from the date of classification.

Plant and equipment are not depreciated once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations.
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in note 29. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

(v) New standards and interpretations not yet effective

The following new and amended Standards and Interpretations which have been issued but are not yet effective have been identified as those which may impact the entity in the period of initial application. Whilst these new and amended Standards and Interpretations are available for early adoption at 30 June 2017, they have not been applied in preparing this financial report.

The Group has made a preliminary assessment of the impact of the new Accounting Standard AASB 15 *Revenue from Contracts with Customers*. A preliminary assessment has been made by considering two main contracts of the Group which comprises 74% of the total revenue of the group. The Group has assessed that accounting for variable consideration under AASB 15 will not have a material impact on the revenue recognition in relation to these key contracts in future periods, rather revenue at the full transaction price will continue to be recognised when control passes to the customer. The Group is still in the process of assessing the full impact of the application of AASB 15 on the Group's financial statements and at this stage, it is not practicable to provide a reasonable financial estimate of the effect until the group completes the detailed review. As a result, the above preliminary assessment is subject to change.

The AASB has issued a new Accounting Standard AASB 16 *Leases* which is effective for fiscal years, and interim periods within those fiscal years, beginning after 1 January 2019; however, early adoption is permitted. This standard requires entities that lease assets to recognise on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Group's current operating leases comprise only of real estate. We are currently assessing the impact the new standard will have on our consolidated financial statements and related disclosures. Upon adoption of this standard, we expect the Group's balance sheet to include a right of use asset and liability related to these operating lease arrangements.

The Group is yet to make a decision in relation to a transition method for the adoption of the new Accounting Standards AASB 15 and AASB 16.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) New standards and interpretations not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group
AASB 2016-2	<i>Amendments to Australian Accounting Standards—Disclosure Initiative: amendments to AASB 107</i>	The amendments to AASB 107 statement of cash flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).	1-Jan-17	1-Jul-17
AASB 2017-2	<i>Amendments to Australian Accounting Standards—Further Annual Improvements 2014-2016 Cycle</i>	This Standard clarifies the scope of AASB 12 Disclosure of Interests in Other Entities by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations.	1-Jan-17	1-Jul-17
AASB 9, and relevant amending standards	<i>Financial Instruments</i>	<p>AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement.</p> <p>Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.</p> <p>There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.</p> <p>Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.</p> <p>For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.</p> <p>All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.</p> <p>The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9.</p> <p>The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.</p> <p>The Group does not have any hedging relationships and therefore does not expect to be impacted by AASB 9 hedge accounting. The Group is currently still assessing the impact of IFRS 9 classification and measurement on their financial assets. The Group will apply the simplified approach for recognition of impairment losses based on lifetime expected losses.</p>	1-Jan-18	1-Jul-18

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) New standards and interpretations not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group
AASB 2016-5	<i>Amendments to Australian Accounting Standards— Classification and Measurement of Share-based Payment Transactions</i>	This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: <ul style="list-style-type: none"> ▶ The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments ▶ Share-based payment transactions with a net settlement feature for withholding tax obligations ▶ A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. 	1-Jan-18	1-Jul-18
AASB 15, and relevant amending standards	<i>Revenue from Contracts with Customers</i>	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: <ul style="list-style-type: none"> ▶ Step 1: Identify the contract(s) with a customer ▶ Step 2: Identify the performance obligations in the contract ▶ Step 3: Determine the transaction price ▶ Step 4: Allocate the transaction price to the performance obligations in the contract ▶ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. 	1-Jan-18	1-Jul-18
AASB 2014-10	<i>Amendments to Australian Accounting Standards— Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.	1-Jan-18	1-Jul-18

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) New standards and interpretations not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group
AASB 2017-1	<i>Amendments to Australian Accounting Standards—Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments</i>	The amendments clarify certain requirements in: ► AASB 1 First-time Adoption of Australian Accounting Standards – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration ► AASB 12 Disclosure of Interests in Other Entities – clarification of scope ► AASB 128 Investments in Associates and Joint Ventures – measuring an associate or joint venture at fair value ► AASB 140 Investment Property – change in use.	1-Jan-18	1-Jul-18
AASB Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.	1-Jan-18	1-Jul-18
AASB 16	<i>Leases</i>	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.	1-Jan-19	1-Jul-19

* Designates the beginning of the applicable annual reporting period unless otherwise stated.

(w) Comparatives

Certain comparatives have been reclassified to conform with current year presentation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of the assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Significant accounting judgements

Taxation

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of profit or loss. Refer to note 17 for further information.

Impairment of goodwill and plant and equipment

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the CGU, using a value in use discounted cash flow methodology, to which the goodwill is allocated. At 30 June 2017, the Group has determined that the recoverable amount for the REMSAFE CGU is less than its carrying value, resulting in an impairment charge to the statement of profit or loss of \$5,218,269. The recoverable amount has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management. Refer to note 19 for further information.

Plant and equipment are tested whenever events or changes in circumstances indicate that the carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Refer to note 18 for further information.

Product warranty

In determining the level of provision required for product warranties the Group has made judgements in respect of the expected performance of the product, how often the customers will actually use the product warranty, and the costs of fulfilling the performance of the product warranty. Historical experience and current knowledge of the performance of products have been used in determining this provision. The related carrying amounts are disclosed in note 24.

Contingent consideration - equity classification

In determining the equity classification of contingent consideration with respect to the Remsafe non-controlling interest transaction, the Group made judgements in respect of the performance targets to be met by REMSAFE. The Group deemed each performance target as non-cumulative, which may be paid in two different 12 month periods and resulting in the issue of a fixed number of shares. If a target is not met, no additional shares will be issued. In this scenario, as each of the targets are independent of one another, the arrangement can be regarded as being two distinct contingent consideration arrangements that are assessed separately. As either zero or the requisite number of shares will be issued if each target is met, the obligation in respect of each arrangement is classified as equity under AASB 132. Refer to note 26(c) for further information.

Revenue from rendering of services

Revenue from services rendered is recognised in the statement of profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to the extent of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

5. OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold, whether retail or wholesale, and the nature of the services provided, the identity of service line manager and country of origin. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

The reportable segments are based on the similarity of the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Types of products and services as reported in 2017

Unmanned Aerial Vehicles

The Unmanned Aerial Vehicles segment is focused on the design, development and construction of engines and propulsion systems for Unmanned Aerial Vehicles (UAV) based on Orbital's unique FlexDI™ technology for spark ignited heavy fuel engine applications. The Small Unmanned Aerial System (SUAS) engines business was previously reported as part of the System Sales segment. Due to the expansion of the business to include the broader UAV engines business, the business is now reported as a stand-alone operating segment.

Safety & Productivity

REMSAFE has developed an electrical isolation system that provides a safety solution which delivers cost savings and increases productivity. The patented isolation system enables plant operators to safely and promptly isolate fixed equipment from its energy source, thereby optimising production, increasing safety and delivering immediate cost savings. REMSAFE products provide for the highest level of safety for high and low voltage electrical isolations.

Engineering Services (previously Accelerator)

The Engineering Services segment leverages off the engineering expertise, facilities and experience to commercialise innovative and patent protected technologies. Engineering Service contracts are predominantly complete at 30 June 2017, and therefore this business segment will not be reported subsequent to June 2017.

Consumer

The Consumer segment includes royalties and licences from licensees of Orbital technologies. Applications utilising Orbital technologies include outboard engines, auto rickshaws and scooters, representing consumer products. The royalties and licence business was previously reported as a stand-alone operating segment.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Corporate management and finance and administration overhead expenses.
- Finance costs - including adjustments on provisions due to discounting.
- Cash and cash equivalents.
- Borrowings.
- Research and development costs.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Inter-segment pricing is determined on an arm's length basis.

Geographical Information

In presenting geographical information revenue is based on the geographical location of customers and non-current assets are based on the geographical location of the assets.

Major Customers

The Group has a number of customers to which it provides both products and services. The UAV supply is to one major customer that accounted for 62% (2016: one customer 16%) of total external revenue. The Safety & Productivity segment supplies to Australian and South African mining companies of which one customer accounted for 32% of total external revenue (2016: 26%). No other customer accounts for more than 10% of revenue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

5. OPERATING SEGMENTS (CONTINUED)

(a) Operating segments

	Unmanned Aerial Vehicles		Safety & Productivity		Consumer		Engineering Services		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Segment Revenue - external customers	11,446	3,139	687	5,814	802	788	1,319	1,891	14,254	11,632
Unallocated other revenue									115	119
Total Revenue									14,369	11,751
Segment result (i) & (ii)	2,148	277	(8,307)	(248)	312	399	1,067	6	(4,780)	434
Unallocated expenses - net (iii)									(6,352)	(5,313)
Change in fair value of investment									(568)	-
Finance costs									(576)	(1,419)
Gain on sale of share in equity accounted investment									-	3,861
Share of profit from equity accounted investment									-	1,529
Foreign currency translation reserve released on sale of share in equity accounted investment									-	3,607
Net (loss) / profit before related income tax									(12,277)	2,699
Income tax benefit/ (expense)									26	(1,416)
(Loss)/ Profit after tax from continuing operations									(12,251)	1,283

	Unmanned Aerial Vehicles		Safety & Productivity		Consumer		Engineering Services		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Non-cash (revenue) and expenses										
Depreciation and amortisation	152	101	73	373	-	82	354	363	579	919
Equity settled employee compensation	41	61	12	11	-	-	2	3	55	75
Impairment of Goodwill	-	-	5,218	-	-	-	-	-	5,218	-
Other non-cash (income)/ expenses	420	-	-	-	-	(78)	(225)	(225)	195	(303)
Segment non-cash expenses	613	162	5,303	384	-	4	131	141	6,047	691
Equity settled employee compensation									110	121
Amortisation of non-interest bearing loans									540	543
Movement in deferred tax									(25)	72
Finance costs									-	876
Share of profit from associate									-	(1,529)
Foreign currency translation reserve released on sale of share in equity accounted investment									-	(3,607)
Fair value movement in quoted equity shares									568	-
Movement in provision for surplus lease space									(49)	(132)
Foreign exchange translation loss/ (gain)									72	(2)
Total non-cash expenses and (revenue)									7,263	(2,967)

(i) Research and Development (R&D) income and expenditure have been included within segment results. In the prior period R&D was not allocated to segments. To be consistent with current year allocation of R&D to segments, comparatives have been reclassified to conform with current year presentation.

(ii) Safety & Productivity includes Goodwill impairment of \$5.218 million in REMSAFE.

(iii) Unallocated expenses (net) includes other income and corporate overheads which are not allocated to operating segments as they are considered to support the Group as a whole.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

5. OPERATING SEGMENTS (CONTINUED)

(a) Operating segments

	Unmanned Aerial Vehicles		Safety & Productivity		Consumer		Engineering Services		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment Assets	8,938	8,259	1,157	7,236	7	290	1,140	1,615	11,242	17,400
<i>Unallocated assets</i>										
Cash									17,131	24,872
Other financial assets									737	1,434
Deferred tax asset									5,507	5,482
Investments									1,897	-
Consolidated Total Assets									36,514	49,188
Segment Liabilities	7,650	6,614	356	1,093	19	124	1,204	1,810	9,229	9,641
<i>Unallocated liabilities</i>										
Borrowings									8,102	8,279
Consolidated Total Liabilities									17,331	17,920
Consolidated Net Assets									19,183	31,268

Segment acquisitions of non-current assets	140	161	30	123	-	-	-	-	170	284
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(b) Geographic information

	Americas		Europe		Asia		Australia		Africa		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue – external customers	12,161	3,829	20	57	629	1,486	1,221	4,294	223	1,966	14,254	11,632
Non-current assets	-	-	-	-	-	-	7,004	12,625	-	-	7,004	12,625

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

		CONSOLIDATED	
		2017	2016
		\$'000	\$'000
6.	OTHER REVENUE		
	Interest revenue	<u>115</u>	<u>119</u>
7.	OTHER INCOME		
	Grant income	225	430
	Rental income from sub-lease	437	460
	Research and development (R&D) grant (a)	2,728	3,071
	Others (b)	<u>50</u>	<u>7,491</u>
		<u>3,440</u>	<u>11,452</u>
	<p>(a) In accordance with research and development tax legislation the Group is entitled to a refundable R&D tax offset accounted for as a government grant.</p> <p>(b) The previous year other income includes profit on sale of the Synerject investment, Automotive grant income and realisation of the foreign currency translation reserve.</p>		
8.	EXPENSES		
(a)	Employee benefits expenses		
	Salaries and wages	10,943	7,616
	Contributions to defined contributions superannuation funds	913	913
	Share based payments	165	196
	Annual leave	(19)	87
	Long service leave	146	189
	Other associated personnel expenses	<u>954</u>	<u>769</u>
		<u>13,102</u>	<u>9,770</u>
(b)	Finance costs		
	Non-cash interest expense WA Government Loan	540	543
	Convertible note interest expense	-	876
		<u>540</u>	<u>1,419</u>
(c)	Other expenses		
	Administration	298	116
	Marketing & Investor relations	418	182
	Warranty provision	420	-
	Fair value movement in quoted equity shares	568	-
	Net foreign exchange losses	72	542
	Corporate advisory expenses	444	-
	Other	<u>91</u>	<u>111</u>
		<u>2,311</u>	<u>951</u>
(d)	Materials and consumables expenses		
	Raw materials and consumables	2,426	5,001
	Change in inventories	<u>968</u>	<u>(3,858)</u>
		<u>3,394</u>	<u>1,143</u>
(e)	Lease payments included in Statement of Profit or Loss		
	Minimum lease payments – operating lease	<u>940</u>	<u>768</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

8. EXPENSES (CONTINUED)

CONSOLIDATED

2017
\$'000

2016
\$'000

(f) Research and development costs

R&D costs charged directly to the statement of profit or loss

1,912

1,986

9. INCOME TAX

(a) Recognised in the Statement of Profit or Loss

Current income tax

Current year expense

-

(563)

Adjustments in respect of current income tax of previous year

-

(468)

Deferred tax

Adjustments in respect of deferred tax of previous years

(105)

-

Benefits arising from previously unrecognised tax losses

131

-

Relating to originating and reversing temporary differences

-

(385)

Total income tax expense in statement of profit or loss

26

(1,416)

(b) Numerical reconciliation between tax benefit and pre-tax net profit/(loss)

Profit/(loss) before tax from continuing operations

(12,277)

2,699

Loss before tax from discontinued operations

-

(68)

Profit/(loss) before income tax

(12,277)

2,631

Income tax using the statutory tax rates

3,683

(789)

- Effect of higher tax rates in the United States of America

-

(217)

- Non-deductible expenditure

(3,445)

(2,340)

- Non assessable income

855

2,394

- Deferred tax asset not recognised

(1,168)

(1,076)

- Prior year Research and Development non-deductible expenditure

-

(468)

- De-recognition of US tax losses

-

(4,804)

- Recognition of previously unrecognised Australian tax losses

131

5,376

- Net withholding tax (paid)/recouped

-

1

- Other

-

697

- United States of America Federal and State taxes

(30)

(190)

Income tax expense on pre-tax net profit/(loss)

26

(1,416)

(c) Tax consolidation

Members of the tax consolidated group and the tax sharing arrangement:

Orbital Corporation Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated Group with effect from 1 July 2002. Orbital Corporation Limited is the head entity of the tax consolidated Group. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Orbital and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

In addition to its own current and deferred tax amounts, Orbital also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

The entities have entered into a tax funding arrangement under which the controlled entities fully compensate Orbital for any current tax payable assumed and are compensated by Orbital for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Orbital under the tax consolidation regime. The funding amounts are determined by reference to the amounts recognised in the controlled entities' financial statements. The funding amounts are recognised as current intercompany receivables or payables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2017 was based on loss attributable to ordinary shareholders of \$11,948,000 (2016: profit \$1,533,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2017 of 76,811,878 shares (2016: 56,198,664 shares), calculated as follows:

	CONSOLIDATED	
	2017	2016
	\$	\$
(Loss)/ Profit attributable to ordinary equity holders of the Parent:		
Continuing operations	(11,948,000)	1,601,000
Discontinued operations	-	(68,000)
(Loss)/ Profit attributable to ordinary equity holders of the Parent for basic earnings	(11,948,000)	1,533,000
Weighted average number of ordinary shares	Number	Number
Weighted average number of ordinary shares at 30 June	76,811,878	56,198,664
Effect of potential dilutive ordinary shares	-	-
Weighted average number of potential dilutive ordinary shares at 30 June	76,811,878	56,198,664
Earnings per share	Cents	Cents
Basic earnings per share	(15.55)	2.73
Diluted earnings per share	(15.55)	2.73

Rights granted to employees (including Key Management Personnel) as described in note 33 are considered to be contingently issuable potential ordinary shares. These potential ordinary shares have not been included in the determination of basic earnings per share. Contingent consideration of 4,000,000 Orbital shares to be issued to the Lane Trust for acquisition of the remaining 38.5% interest in REMSAFE has not been included in the diluted earnings per share calculation as they are contingent on future events. In the previous year, 900,000 performance rights have not been included in the diluted earnings per share calculation as they were contingent on future events.

11. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2017	2016
	\$'000	\$'000
Cash at bank	3,838	10,398
Cash at bank – US dollars	12,290	13,705
Cash at bank – European currency units	3	3
At call deposits – financial institutions*	1,000	766
	17,131	24,872

* The deposits are at call with an Australian Bank, earning an interest rate of 2%.

12. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Other financial assets

Financial assets at fair value through profit and loss

Investment in quoted equity shares	1,897	-
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Short term deposits at amortised cost

Short term deposits	737	1,434
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Total other financial assets	2,634	1,434
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

12. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(a) Other financial assets (continued)

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss represents investment in equity shares of a listed company. The Group holds a non-controlling interest in the entity. Fair value of these equity shares are determined by reference to published price quotations in an active market.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value represented as other expense (negative net changes in fair value) or other income (positive net changes in fair value) in the statement of profit or loss.

Short term deposits at amortised cost

Short term deposits represents term deposits with financial institutions for periods greater than 90 days and less than 365 days earning interest at the respective term deposit rates at time of lodgement.

Due to the short-term nature of the deposits, its carrying value approximates fair value. Short term deposits are only invested with a major financial institution to minimise the risk of default by counter parties.

The Group has pledged short term deposits of \$72,000 (2016: \$672,000) held as collateral for performance guarantees under contractual arrangements related to customer agreements and \$665,000 (2016: \$1,430,000) held as collateral for the financing facilities. Refer note 21 for further details on financing facility.

	CONSOLIDATED	
	2017	2016
	\$'000	\$'000
(b) Other financial liabilities		
Financial liabilities and borrowings		
Current		
Loans and advances - secured	860	717
Total current borrowings	860	717
Non-current		
Loans and advances - secured	7,242	7,562
Total non-current borrowings	7,242	7,562

Loans and advances - secured

The Government of Western Australia had previously provided the company with a fully utilised loan facility of \$19,000,000 under the terms of a "Development Agreement". During the 2010 year Orbital reached agreement with the WA Government through the Department of Commerce for the restructure of the Non-Interest Bearing Loan.

Under the agreed restructure, the original loan has been terminated and replaced by a new loan of \$14,346,000 with the following terms and conditions.

- Term – 2010 to 2025.
- Repayments - Commencing May 2010 at \$200,000 per annum.
- Repayments - Increasing annually to a maximum of \$2,100,000 per annum in 2023.
- Interest free.

The restructured loan's net fair value utilising a market interest rate of 6.52% was \$7,558,000 on initial recognition.

Subsequent to initial recognition the loan is carried at amortised cost. Amortisation for the year ended 30 June 2017 was \$540,000 (2016: \$543,000). The carrying value as at 30 June 2017 is \$8,102,000 (2016: \$8,279,000), of which \$860,000 relates to short term borrowings (2016: \$717,000) and \$7,242,000 relates to long term borrowings (2016: \$7,562,000).

This loan facility is secured by way of a first ranking floating debenture over the whole of the assets and undertakings of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

12. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(c) Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and short-term deposits, receivables, investment in quoted equity shares, payables, and financial liabilities.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group from time-to-time enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of revenue. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest and foreign exchange rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts. The Group's Board of Directors reviews and approves all equity investment decisions and the equity portfolio is reviewed by the Group's senior management on a regular basis.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

Risk Exposures and Responses

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash, cash equivalents on deposit and term deposits with Australian banks.

The primary goal of the Group is to maximize returns on surplus cash, using deposits with maturities of less than 90 days. Management continually monitors the returns on funds invested. The Group also has a term deposit of greater than 90 days and less than 365 days that has been pledged as security to the Group's bankers for financial arrangements.

At balance date, the Group had the following mix of financial assets and financial liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	CONSOLIDATED	
	2017	2016
	\$'000	\$'000
Financial Assets		
Cash and cash equivalents	17,131	24,872
Short term deposits	737	1,434
	<u>17,868</u>	<u>26,306</u>

The following sensitivity analysis is based on the interest rate risk exposures in existence at reporting date:

At 30 June 2017, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

12. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(c) Financial risk management objectives and policies (continued)

	Post tax profit/(loss) Higher/(Lower)		Other comprehensive income Higher/(Lower)	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Consolidated				
+1% (100 basis points)	179	263	-	-
- 1% (100 basis points)	(178)	(263)	-	-

Foreign currency risk

As a result of the large USD cash balance resulting from the sale of investment in Synerject LLC in the previous year, the Group's Statement of Profit or Loss and Statement of Financial Position can be affected significantly by movements in the US\$/A\$ exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

Approximately 61% (2016: 27%) of the Group's sales from continuing operations are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 14% (2016: 17%) of costs from continuing operations are denominated in currencies other than the functional currency of the operating entity making the expenditure.

In the current year, the Group did not enter into any forward foreign currency contracts. The Group does not hold foreign currency positions for trading purposes.

At 30 June 2017, the Group had the following exposure to US\$ foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
Financial Assets		
Cash and cash equivalents	12,290	13,705
Trade and other receivables	2,452	1,274
	14,742	14,979
Financial Liabilities		
Trade and other payables	11	106

At 30 June 2017, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit/(loss) Higher/(Lower)		Other comprehensive income Higher/(Lower)	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Consolidated				
AUD/USD +5%	-701	-708	-	-
AUD/USD -5%	775	783	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

12. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(c) Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Maximum exposure to credit risk equals to the carrying amount of these financial assets (as outlined in each applicable note).

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by management. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis.

There are no significant concentrations of credit risk within the Group, other than the research and development grant receivable from the Australian Government. Financial instruments are only invested with a major financial institution to minimise the risk of default of counterparties. An ageing of receivables is included in Note 14.

Liquidity risk

The external borrowings of the Group at 30 June 2017 consist of an interest free Western Australian Government loan of \$14,346,000 repayable in yearly instalments from May 2010 to May 2025.

The table below reflects all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2017. For all obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2017. The Group's approach to managing liquidity is to ensure, as far as is possible, that it will always have sufficient liquidity to meet its liabilities when due and payable without incurring unacceptable losses or risks.

The remaining contractual maturities of the Group's financial liabilities are:

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
6 months or less	6,498	6,456
6-12 months	860	717
1-5 years	5,540	4,616
Over 5 years	4,447	6,230
	<u>17,345</u>	<u>18,019</u>

Equity price risk

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. At the reporting date, the exposure to listed equity securities at fair value was \$1,897,000 (2016: \$nil).

Had the quoted price of the investment in quoted equity shares listed on ASX held by Group been 5% higher/lower with all other variables held constant the group's profit or loss would have been \$95,000 higher/lower, arising as a result of an increase/decrease in the fair value of equity instruments. Comparison of fair values to carrying amounts of these investments have been provided in Note 13.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

13. FAIR VALUES

Comparison of fair values to carrying amounts by class of financial instrument, other than those where their carrying amounts approximate fair value:

	Carrying Amounts		Fair Value	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Investment in quoted equity shares	1,897	-	1,897	-
Total	1,897	-	1,897	-
Financial Liabilities				
Loans and advances - secured	8,102	8,279	6,586	6,520
Total	8,102	8,279	6,586	6,520

The Group assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values of financial instruments:

- The fair values of the quoted equity shares are based on price quotations at the reporting date in active markets.
- The fair value of the Group's secured loan is calculated by discounting the expected future cash flows at the prevailing market interest rate at reporting date 2017: 12% (2016: 12%).

The following table provide the fair value measurement hierarchy of the Group's assets and liabilities:

As at 30 June 2017:	Fair value measurement using			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	\$'000	\$'000	\$'000	\$'000
Financial assets for which fair values are disclosed:				
Investment in quoted equity shares	1,897	1,897	-	-
	1,897	1,897	-	-
Financial liabilities for which fair values are disclosed:				
Loans and advances - secured	6,586	-	6,586	-
	6,586	-	6,586	-

The following table provide the fair value measurement hierarchy of the Group's assets and liabilities:

As at 30 June 2016:	Fair value measurement using			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	\$'000	\$'000	\$'000	\$'000
Financial liabilities for which fair values are disclosed:				
Loans and advances - secured	6,520	-	6,520	-
	6,520	-	6,520	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

		CONSOLIDATED	
		2017	2016
		\$'000	\$'000
14.	TRADE AND OTHER RECEIVABLES		
	Current		
	Trade receivables	<u>3,989</u>	<u>3,174</u>
		3,989	3,174
	Accrued royalties	180	199
	Other receivables	2,074	2,305
	Prepayments	<u>222</u>	<u>331</u>
		<u>6,465</u>	<u>6,009</u>

(a) **Allowance for impairment loss**

Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No impairment allowance has been recognised by the Group at balance date (2016: \$nil).

At 30 June, the ageing of trade receivables (\$'000) is as follows:

		Total	0-30 days	31-60 days	61-90 days PDNI*	+91 days PDNI*	+91 days CI**
2017	Consolidated	3,989	3,854	54	50	31	-
2016	Consolidated	3,174	2,630	22	84	438	-

* Past due not impaired

** Considered impaired

Receivables past due but not considered impaired are \$81,000 (2016:\$522,000). Payment terms on these amounts have not been re-negotiated. Management has been in contact with each relevant debtor and is satisfied that payments will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(b) **Foreign exchange and interest rate risk**

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 12.

15. INVENTORIES

Raw materials (at cost)	1,908	1,652
Work in progress (at cost)	828	2,320
Finished goods (at lower of cost and net realisable value)	<u>544</u>	<u>276</u>
	<u>3,280</u>	<u>4,248</u>

Inventory expense

Inventories recognised as an expense from continued operations for the year ended 30 June 2017 totalled \$3,394,000 (2016: \$1,143,000) for the Group (Refer to Note 8(d)). REMSAFE inventories of \$14,000 were written-down to their net realisable value of \$nil at 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

16. INVESTMENT IN ASSOCIATE

(a) Interest in Synerject LLC

The Group sold its 30% share in Synerject on 31 October 2015 for US\$17.8 million.

The principal activities of Synerject LLC are the marketing, sale and manufacture, including research and development in the area of engine management systems and components in the marine, recreational, motorcycle and utility markets. Application centres in Europe, China, Taiwan and the United States provide on-site support of customer development and production programs.

The Group accounted for the investment in Synerject using the equity method.

Other information for Synerject is as follows:

Country of incorporation: USA
Financial Year end: 31-Dec

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
(b) Movement in the carrying amount of the Group's interest in Synerject		
Beginning of year	-	17,826
Share of profits after tax	-	1,529
Share of reserves	-	(119)
Dividends received	-	-
Unrealised foreign exchange movements	-	1,051
Sale of interest	-	(20,287)
End of year	<u>-</u>	<u>-</u>
(c) Results of Synerject		
Share of Synerject's net profit	<u>-</u>	<u>1,529</u>

17. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Deferred Tax Assets		Deferred Tax Liabilities		Net	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Tax value of loss carry-forwards recognised	5,507	5,376	-	-	5,507	5,376
Other net temporary differences (a)	-	106	-	-	-	106
Net deferred tax assets	5,507	5,482	-	-	5,507	5,482

The Group recognised A\$5,507,000 (2016: A\$5,376,000) of deferred tax assets after assessing the likelihood of offsetting carried forward tax losses against future taxable profits. Management has assessed the deferred tax asset as recoverable based on forecasted future taxable profits in the Group's business plan. The Group's business plan has been developed using existing customer contracts for Unmanned Aerial Vehicles as the basis for forecasting future revenues and taxable profits from the supply of high-value UAV Propulsion systems.

The Group has tax losses that arose in Australia of A\$71,868,452 (2016: A\$70,256,783) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

17. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Under the tax laws of the United States of America (USA), tax losses that cannot be fully utilised for tax purposes during the current year may be carried forward, subject to some statutory limitations, to reduce taxable income in future years. At 30 June 2017, the available tax carry forward losses of US\$11,286,304 (2016: US\$11,286,304) expire between the years 2018 and 2024. The Group has not recognised a deferred tax asset in relation to unused tax losses in the USA.

Movement in temporary differences during the comparative year

	Consolidated			
	Balance 1-Jul-15 \$'000	Acquired during the year \$'000	Recog- nised in income \$'000	Balance 30-Jun-16 \$'000
Tax value of loss carry-forwards recognised	5,621	-	(245)	5,376
Other net temporary differences	-	-	105	105
Net tax assets	5,621	-	(140)	5,481

Movement in temporary differences during the current year

	Consolidated			
	Balance 1-Jul-16 \$'000	Acquired during the year \$'000	Recog- nised in income \$'000	Balance 30-Jun-17 \$'000
Tax value of loss carry-forwards recognised	5,376	-	131	5,507
Other net temporary differences	105	-	(105)	-
Net tax assets	5,481	-	26	5,507

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
(a) Other net temporary differences		
Deferred tax assets		
Annual leave	-	50
Long service leave	-	40
Revenue in advance	-	15
	<u>-</u>	<u>105</u>

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Australia (net at 30%)

Tax losses	16,054	15,701
Capital loss on investment	1,934	1,934
Other net temporary differences	2,282	2,186
	<u>20,270</u>	<u>19,821</u>

United States of America (net 34%)

Tax losses	5,167	5,167
	<u>5,167</u>	<u>5,167</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
18. PLANT AND EQUIPMENT		
<i>Plant and equipment</i>		
Gross carrying amount at cost	18,288	18,190
Less: accumulated depreciation	(16,791)	(16,265)
Total plant and equipment – net book value	<u>1,497</u>	<u>1,925</u>

Reconciliations

Reconciliations of the carrying amounts for plant and equipment is set out below:

<i>Plant and equipment</i>		
Carrying amount at beginning of year	1,925	2,259
Additions	170	284
Disposals	(19)	(48)
Depreciation	(579)	(570)
Carrying amount at end of year	<u>1,497</u>	<u>1,925</u>

All plant and equipment of the Group are subject to floating charges under the loan facility with the Government of Western Australia (see note 12 (b)).

19. INTANGIBLES AND GOODWILL

Goodwill acquired in business combinations	-	5,218
Total intangibles and goodwill – net book value	<u>-</u>	<u>5,218</u>

Net carrying value

<i>Goodwill acquired in business combinations</i>		
At cost	5,218	5,218
Less: allowance for impairment	(5,218)	-
Carrying amount at end of year	<u>-</u>	<u>5,218</u>
Customer contracts acquired in business combinations		
At cost	-	597
Less: accumulated amortisation	-	(597)
Carrying amount at end of year	<u>-</u>	<u>-</u>

(a) Reconciliation of carrying amounts at the beginning and end of the period

Reconciliations of the carrying amounts for goodwill:

Carrying amount at beginning of year	5,218	5,218
Impairment charge	(5,218)	-
Carrying amount at end of year	<u>-</u>	<u>5,218</u>

Reconciliations of the carrying amounts for customer contracts:

Carrying amount at beginning of year	-	312
Amortisation	-	(312)
Carrying amount at end of year	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

19. INTANGIBLES AND GOODWILL (CONTINUED)

(b) Description of the Group's intangible assets and goodwill

Goodwill

Goodwill arose on the acquisition of REMSAFE Pty Ltd on 4 February 2015 (\$5,218,000).

Customer contracts

Customer contracts were acquired as part of the REMSAFE acquisition and recognised separately from goodwill. The customer contracts are carried at cost (fair value at the date of acquisition) less accumulated amortisation and impairment losses. Following initial recognition, customer contracts are amortised based on the estimated timing of when the benefits are expected to be received from such contracts.

(c) Assessment of impairment

The Group performed its annual impairment test in June 2017. The Group considered the downturn in large-scale capital expenditures within REMSAFE's principal market of Western Australian Iron Ore as a primary indicator of impairment.

Impairment test for Goodwill

REMSAFE

The overall decline in capital expenditures within the Western Australian mining industry, in addition to ongoing economic uncertainty, has led to decreased demand in Remote Isolation Systems.

The recoverable amount for the REMSAFE CGU as at 30 June 2017 has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a four year period. The projected cash flows have been updated to reflect the decreased demand for products and services. The pre-tax discount rate applied to cash flow projections is 16.41% (2016:15.98%) and cash flows beyond the four year period have not been extrapolated. It was concluded the fair value less costs was lower than value in use. As a result of this analysis, management has recognised an impairment charge of \$5,218,269 in the current year against goodwill with a carrying amount of \$5,218,269. The impairment charge is recorded in the statement of profit or loss.

Key assumptions used in value in use calculations

(a) The calculation of value in use for the REMSAFE CGU is most sensitive to the following key assumptions:

- Market share assumptions
- Discount rates

(b) Basis for determining values assigned to key assumptions

Market share assumptions – The value in use model has been updated to reflect decreased demand for the REMSAFE technology and therefore assumes lower growth rates in sales volumes compared to prior year projections. Market share growth rates used within the model have primarily been restricted to existing customer's demand for the REMSAFE technology.

Management recognises that the speed of adoption of the REMSAFE technology in new markets may take a number of years. The value assigned to the market share assumption have primarily been based on existing customers' requirements.

Discount rates – The discount rate is based on the company's weighted average cost of capital (WACC) and is adjusted for risks specific to the cash generating unit to the extent these risks have not been incorporated into the cash flow estimate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
20. TRADE PAYABLES AND OTHER LIABILITIES		
Current		
Trade and other payables	<u>6,498</u>	<u>6,454</u>

(a) **Interest rate, foreign exchange and liquidity risk**

Trade payables are non-interest bearing and are normally settled on 30-day terms. Information regarding foreign exchange and liquidity risk exposure is set out in note 12.

21. FINANCING ARRANGEMENTS

The consolidated entity has standby arrangements with HSBC and Bankwest to provide support facilities:

Total facilities available

Corporate credit card facility	200	280
Bank guarantee	<u>465</u>	<u>1,150</u>
	<u>665</u>	<u>1,430</u>

Facilities utilised at balance date

Corporate credit card facility	60	30
Bank guarantee	<u>465</u>	<u>1,150</u>
	<u>525</u>	<u>1,180</u>

Facilities not utilised at balance date

Corporate credit card facility	<u>140</u>	<u>250</u>
	<u>140</u>	<u>250</u>

The Group has pledged short term deposits of \$665,000 (2016: \$1,430,000) held as collateral for the financing facilities. A bank guarantee has been provided for the benefit of the landlords of the Balcatta premises.

22. EMPLOYEE BENEFITS

(a) **Current**

Annual leave	605	889
Long service leave	<u>953</u>	<u>1,265</u>
	<u>1,558</u>	<u>2,154</u>

(b) **Non-Current**

Long service leave	<u>36</u>	<u>42</u>
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(c) **Aggregate liability for employee entitlements**

	<u>1,594</u>	<u>2,196</u>
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The present value of employee entitlements have been calculated using the following weighted averages:

Assumed rate of increase in wage and salary rates	3.50%	3.50%
Discount rate at 30 June	2.28%	2.98%
Settlement term (years)	10	10

Number of employees

Number of employees at year end	<u>62</u>	<u>81</u>
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
23. GOVERNMENT GRANTS		
Current liabilities		
Investment grant for construction of heavy duty engine testing facility	225	225
Non-current liabilities		
Investment grant for construction of heavy duty engine testing facility	299	524
Total government grants deferred	<u>524</u>	<u>749</u>
Movement in government grants		
At 1 July	749	974
Released to the statement of profit or loss	(225)	(225)
At 30 June	<u>524</u>	<u>749</u>

In June 2008 the Group received funding of \$2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility.

The government grant will be recognised as income over the periods and in the proportions in which depreciation on the heavy duty engine test facility is charged.

24. OTHER PROVISIONS

(a) Current

Warranties	420	-
Surplus lease space	57	57
	<u>477</u>	<u>57</u>

(b) Non-Current

Surplus lease space	<u>136</u>	<u>185</u>
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(c) Reconciliations

Reconciliations of the carrying amounts for each class of provisions are set out below:

Warranties – current

Carrying amount at beginning of year	-	100
Arising during the year	420	-
Utilised	-	(100)
Carrying amount at end of year	<u>420</u>	<u>-</u>

Surplus lease space – current

Carrying amount at beginning of year	57	141
Utilised	(86)	(170)
Reclassified from non-current	86	86
Carrying amount at end of year	<u>57</u>	<u>57</u>

Surplus lease space – non-current

Carrying amount at beginning of year	185	233
Arising during the year	37	38
Reclassified to current	(86)	(86)
Carrying amount at end of year	<u>136</u>	<u>185</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

24. OTHER PROVISIONS (CONTINUED)

(c) Reconciliations (continued)

The product warranty provision relates to sales of propulsion system assemblies for UAVs. In determining the level of provision required for product warranties, the Group has made judgements in respect of the expected performance of the product, how often the customers will actually use the product warranty, and the costs of fulfilling the performance of the product warranty. Historical experience and current knowledge of the performance of products have been used in determining this provision. The movement in the provision is recognised in the statement of profit or loss in the line item "Other Expenses". Considering that this provision relates to a newly developed product, it is not possible to estimate the expected timing of the warranty claims at this stage. However, based on the warranty terms, these costs will have been incurred within two years from the date of sale.

Surplus lease space provision relates to certain unutilised office space under lease agreement ending in January 2021 and accordingly will be utilised in the next four years. The provision takes account of rental income the Group would recover by sub-letting the space. In the prior period, a sub-lease agreement was entered into and rental from the sub-lease agreement is recognised in the statement of profit or loss in the line item "other income".

	CONSOLIDATED	
	2017 \$'000	2016 \$'000
25. SHARE CAPITAL		
Ordinary shares	31,106	30,051
Movement in ordinary shares on issue	Number	\$'000
At 1 July 2015	48,979,099	20,021
Shares issued pursuant to employee share plan	95,646	57
Shares issued under performance rights plan	900,000	158
Convertible note interest elected to be paid in shares	1,359,352	679
Convertible notes converted during the period	24,000,000	9,136
At 30 June 2016	<u>75,334,097</u>	<u>30,051</u>
At 1 July 2016	75,334,097	30,051
Acquisition of remaining 38.5% interest in REMSAFE (note 26 (c))	1,000,000	860
Shares issued pursuant to employee share plan (note 33(b))	61,785	57
Shares issued under performance rights plan (note 33(c))	900,000	138
At 30 June 2017	<u>77,295,882</u>	<u>31,106</u>

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

On 13 October 2016 Orbital acquired the remaining 38.5% minority interest in REMSAFE from the Lane Trust in consideration for 1,000,000 Orbital shares at an issue price of \$0.86 per share.

On 1 March 2016, the Company gave notice to redeem all Convertible Notes outstanding as at 29 February 2016. As a result, note holders exercised their right to convert and all 153 Notes outstanding at that date were converted to ordinary shares. Prior to the early redemption at 29 February 2016, 39 Notes were converted in the 2016 financial year and 8 Notes were converted in the 2015 financial year.

Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital, provides a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as contributed shareholder equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

		CONSOLIDATED	
		2017	2016
		\$'000	\$'000
26. ACCUMULATED LOSSES AND RESERVES			
(a) Movements in retained earnings were as follows:			
Balance 1 July		(967)	(2,500)
Net (loss)/profit attributable to Equity holders of the Parent		<u>(11,948)</u>	<u>1,533</u>
Balance 30 June		<u><u>(12,915)</u></u>	<u><u>(967)</u></u>

Consolidated	Employee	Foreign	Contin-	Consoli-	Conver-	Total
	Equity	Currency	gent	ation	tible	
	Benefits	Transla-	Conside-	Reserve	Note	
	Reserve	tion	ration		Reserve	
		Reserve				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 1 July 2015	1,807	1,900	-	(670)	248	3,285
Equity-settled transaction-employee	(19)	-	-	-	-	(19)
Other comprehensive (loss)/ income	-	(1,900)	-	-	-	(1,900)
Balance at 30 June 2016	<u>1,788</u>	<u>-</u>	<u>-</u>	<u>(670)</u>	<u>248</u>	<u>1,366</u>
Balance 1 July 2016	1,788	-	-	(670)	248	1,366
Acquisition of non-controlling interests	-	-	3,440	(3,785)	-	(345)
Equity-settled transaction-employee	(29)	-	-	-	-	(29)
Other comprehensive income/ (loss)	-	-	-	-	-	-
Balance at 30 June 2017	<u>1,759</u>	<u>-</u>	<u>3,440</u>	<u>(4,455)</u>	<u>248</u>	<u>992</u>

(c) **Nature and purpose of reserves**

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including KMP's, as part of their remuneration. Refer to note 33 for further details of these plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Contingent Consideration

On 13 October 2016 Orbital acquired the remaining 38.5% minority interest in Remsafe from the Lane Trust in consideration for the issue of up to 5 million ordinary shares in Orbital at a deemed issue price of \$0.86 per share. The terms of sale provide incentive to achieve targeted future sales with consideration payable as follows:

- 1 million new fully paid ordinary shares in Orbital immediately on completion of the share sale;
- A further 2 million Orbital shares if Remsafe achieves \$25m accumulated annual sales for any 12 month period; and
- A further 2 million Orbital shares if Remsafe achieves \$40m accumulated annual sales for any 12 month period.

Contingent consideration was measured with reference to the Orbital share price at 13 October 2016 and in consideration for the probability that accumulated annual sales targets will be met, which was assessed at 100 per cent. Contingent consideration is included in Level 2 of the fair value hierarchy.

The arrangement to pay contingent consideration of a further 4,000,000 Orbital shares has been classified as equity within the consolidation reserve. Refer note 4 for details of accounting judgments considered for equity classification.

Condition	No of Shares	Share price	Consideration
If Remsafe achieves \$25m accumulated annual sales for any 12 month period; and	2,000,000	0.86	1,720,000
If Remsafe achieves \$40m accumulated annual sales for any 12 month period.	2,000,000	0.86	1,720,000
			<u>3,440,000</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

26. ACCUMULATED LOSSES AND RESERVES (CONTINUED)

(c) Nature and purpose of reserves (continued)

Consolidation reserve

On 17 June 2015, the Group acquired an additional 7% interest in the voting shares of REMSAFE Pty Ltd increasing its ownership to 61.5%. Cash consideration of \$2,000,000 was paid for the additional shares issued by REMSAFE. The adjustment to the non-controlling interest was treated as an equity transaction.

Convertible note reserve

Convertible note reserve represents the equity component of the \$10,000,000 Convertible notes issued in the financial year 2016. On issuance of Convertible notes the fair value of the liability component was classified as a financial liability and subsequently measured at amortised cost (net of transaction costs). The remainder of the proceeds were allocated to the conversion option that was recognised and included in equity. The portion of the transaction costs attributable to the conversion right were deducted from equity.

27. INFORMATION ABOUT SUBSIDIARIES

(a) Consolidated entity	Note	Class of Shares	Consolidated Entity Interest	
			2017 %	2016 %

Ultimate Parent Entity

- Orbital Corporation Limited

Controlled Entities, incorporated and carrying on business in:

Australia

- Orbital Australia Pty Ltd		Ord	100	100
- Orbital Australia Manufacturing Pty Ltd		Ord	100	100
- OEC Pty Ltd	(a)	Ord	100	100
- S T Management Pty Ltd	(a)	Ord	100	100
- OFT Australia Pty Ltd	(a)	Ord	100	100
- Investment Development Funding Pty	(a)	Ord	100	100
- Power Investment Funding Pty Ltd	(a)	Ord	100	100
- Kala Technologies Pty Ltd	(a)	Ord	100	100
- Orbital Share Plan Pty Ltd	(b)	Ord	100	100
- REMSAFE Pty Ltd	(c)	Ord	100	61.5

United States of America

- Orbital Holdings (USA) Inc.	(a)	Ord	100	100
- Orbital Fluid Technologies Inc.		Ord	100	100
- Orbital Engine Company (USA) Inc.	(d)	Ord	-	100

United Kingdom

- Orbital Engine Company (UK) Ltd	(e)	Ord	100	100
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(a) Dormant for the years ended 30 June 2017 and 30 June 2016.

(b) Orbital Share Plan Pty Ltd was established on 22 September 2008 and acts as the trustee of the Orbital Executive Long Term Share Plans.

(c) On 13 October 2016 Orbital acquired the remaining 38.5% minority interest in REMSAFE Pty Ltd.

(d) Company was dissolved during the year ended 30 June 2017. There was no consequence to the Group from the dissolution of the subsidiary.

(e) The company is in the process of being dissolved.

(b) Material partly-owned subsidiary: REMSAFE Pty Ltd

The principal place of business of REMSAFE is in Balcatta, Western Australia.

On 13 October 2016 Orbital acquired the remaining 38.5% minority interest in REMSAFE, increasing its ownership interest to 100%. Equity consideration of 1,000,000 Orbital shares was issued to the non-controlling shareholder, the Lane Trust, at an issue price of \$0.86 per share. The carrying value of the net assets of REMSAFE (excluding goodwill on the original acquisition) was \$2,682,000. Refer note 26(c) for further details.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

27. INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

(b) Material partly-owned subsidiary: REMSAFE Pty Ltd (continued)

Financial information of the subsidiary that have material non-controlling interest is provided below:

	2017 (3 months)	2016 (12 months)
Proportion of equity interest held by non-controlling interest	Nil	38.50%
	\$'000	\$'000
Accumulated balance of material non-controlling interest	<u>-</u>	<u>818</u>
Loss for the period allocated to material non-controlling interest	<u>(303)</u>	<u>(318)</u>

Summarised financial information for REMSAFE is provided below:

Summarised Statement of Profit or Loss for the period

Revenue	199	5,814
Research and development grant	-	1,432
Expenses	<u>(975)</u>	<u>(7,325)</u>
Loss before tax	<u>(776)</u>	<u>(79)</u>
Income tax expense	<u>(11)</u>	<u>(747)</u>
Loss for the year from continuing operations	<u>(787)</u>	<u>(826)</u>
Total Comprehensive loss	<u><u>(787)</u></u>	<u><u>(826)</u></u>
Attributable to non-controlling interests	(303)	(318)
Dividends paid to non-controlling interests	<u>-</u>	<u>-</u>

2017	2016
\$'000	\$'000

Summarised Statement of Financial Position as at 30 June

Assets

Current assets		
Cash	-	1,469
Other financial assets	-	769
Trade and other receivables	-	1,696
Inventories	-	18
Non-current assets		
Deferred taxation asset	-	106
Plant and equipment	<u>-</u>	<u>131</u>
	<u>-</u>	<u>4,189</u>

Liabilities

Current liabilities		
Trade payables and other liabilities	-	615
Employee benefits	-	284
Non-current liabilities		
Other liabilities	-	1,151
Employee benefits	<u>-</u>	<u>17</u>
	<u>-</u>	<u>2,067</u>

Total Equity

Attributable to:		
Equity holders of the Parent	-	1,305
Non-controlling interest	-	818

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

28. INFORMATION RELATING TO ORBITAL CORPORATION LIMITED

	2017 \$'000	2016 \$'000
Summarised Statement of Financial Position as at 30 June		
Current assets	3	2
Total assets	<u>36,513</u>	<u>49,188</u>
Current liabilities	860	-
Total liabilities	<u>8,102</u>	<u>8,527</u>
Issued capital	31,106	30,051
Accumulated (losses)/earnings	(4,454)	9,804
Employee equity benefits reserve	1,759	1,788
Total shareholders' equity	<u>28,411</u>	<u>41,643</u>
(Loss)/profit of the parent entity	(14,258)	27,648
Total comprehensive (loss)/profit of the parent entity	<u>(14,258)</u>	<u>27,648</u>

29. DISCONTINUED OPERATIONS

On 30 June 2015, the Group publicly announced the decision of its Board of Directors to exit the LPG businesses due to the decline in the LPG market, the resulting lack of sustainable profitability and the recent changes in Orbital's business focus.

The Group completed the divestment of both the Sprint Gas Australia ("Sprint Gas") business and the Orbital Autogas Systems ("OAS") business by 30 November 2015. The sale of the net assets of Sprint Gas and the sale of the OAS inventory assets were combined to form a single co-ordinated plan to exit the loss-making LPG businesses with minimal cost of closure to the Group. The Sprint Gas business divestment was executed through the sale of the net assets of Sprint Gas to the non-controlling shareholder for no consideration. The OAS business divestment was executed through the closure of the OAS operations and the transfer of the inventory of the OAS business to Sprint Gas at an agreed value of \$468,000, which is being settled through an 18 month payment arrangement. The net assets of Sprint Gas and the OAS inventory were classified as a disposal group held for sale as at 30 June 2015. The results of both the Sprint Gas business and the OAS business were reported as discontinued operations in the statement of profit or loss in the previous year.

The net assets of Sprint Gas were measured at the lower of its carrying amount and fair value less costs to sell and as a result the net assets were impaired in full. The total impairment charge was recognised in the statement of profit or loss in the previous year as part of the line item "Loss after tax for the year from discontinued operations". The LPG businesses were included in the Consumer operating segment until 30 June 2014.

	2016 \$'000
(a) The results of the LPG businesses for the year are presented below:	
Revenue	2,538
Expenses	(2,536)
Operating income/(loss)	<u>2</u>
Finance costs	-
Impairment loss recognised on the remeasurement to fair value less cost to sell	(70)
Loss before tax from discontinued operations	(68)
Tax	-
Loss for the year from discontinued operations	<u>(68)</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

29. DISCONTINUED OPERATIONS (CONTINUED)

- (b) The major classes of assets and liabilities of the LPG businesses classified as held for sale and fully written down as at 30 June 2015 and disposed of on 30 November 2015 were as follows:

	2016 \$'000
Assets	
Plant and equipment	193
Inventories	1,777
Trade and other receivables	725
Cash and cash equivalents	784
	<u>3,479</u>
Impairment	<u>(2,542)</u>
	<u>937</u>
Liabilities	
Employee benefits	174
Borrowings	19
Trade and other creditors	276
	<u>469</u>
Fair value of disposal group	<u>468</u>
The net cash flows incurred by the LPG businesses are as follows:	
Operating	(120)
Investing	(35)
Financing	5
Net cash (outflow)/inflow	<u><u>(150)</u></u>
Earnings per share:	
Basic, earnings for the year from discontinued operations (in cents)	(0.12)
Diluted, earnings for the year from discontinued operations (in cents)	(0.12)

30. RELATED PARTY DISCLOSURES

(a) Controlled Entities

Details of interest in controlled entities are set out in Note 27.

(b) Other related parties

Transactions with related parties:

Agere Pty Ltd, a company of which Mr. Steve Gallagher is a Director, received \$13,167 (2016: Nil) for Directors fees for his service to the Company. A total of \$5,000 remains due and payable as at 30 June 2017 (2016: Nil).

The Group made no purchases from Synerject LLC (2016: \$32,000), an associate of the Company up to October 2015.

31. KEY MANAGEMENT PERSONNEL

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-Executive Directors

Mr JP Welborn
Mr TD Stinson (appointed 11 August 2017)
Mr S Gallagher (appointed 12 April 2017)
Mr JH Poynton (resigned 12 April 2017)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

31. KEY MANAGEMENT PERSONNEL (CONTINUED)

Executive directors

Mr TM Alder (Managing Director & Chief Executive Officer) (commenced 11 August 2017)

Mr TD Stinson (Managing Director & Chief Executive Officer) (resigned 11 August 2017)

Executives

Dr GP Cathcart (Chief Technical Officer)

Mr MC Lane (Executive Chairman - REMSAFE) (changed roles as CEO of REMSAFE to Chairman on 13 October 2016)

Ms R Jones (Chief Financial Officer) (commenced 16 August 2017)

Mr TM Alder (Chief Financial Officer) (commenced 14 December 2016, resigned 11 August 2017)

Mr IG Veitch (Chief Financial Officer) (resigned 18 November 2016)

Ms C Law (Chief Commercial Officer) (resigned 3 May 2017)

Key management personnel compensation

The key management personnel compensation included in 'employee benefits expense' (see note 8) are as follows:

	CONSOLIDATED	
	2017	2016
	\$	\$
Short-term employee benefits	1,517,436	1,489,804
Post-employment benefits	323,256	127,617
Long-term employee benefits	173,102	26,825
Equity compensation benefits	111,441	141,932
	<u>2,125,235</u>	<u>1,786,178</u>

Individual directors and executives compensation disclosures

No director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests at year-end.

Loans to key management personnel and their related parties

The Group has not made any loans to key management personnel or their related parties since the end of the previous financial year and there were no loans to any key management personnel or their related parties at year-end.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

31. KEY MANAGEMENT PERSONNEL (CONTINUED)

Movement in shares

The movement during the reporting period in the number of ordinary shares in Orbital Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Number Held at	Number Granted as compensation			Number Held at	
	1-Jul-16	Number of Shares Purchased	ESP #1	Vested PRP	Number of Shares Sold	30-Jun-17
Non-executive directors						
Mr JP Welborn	679,103	-	-	-	-	679,103
Mr S Gallagher (a)	-	-	-	-	-	-
Mr JH Poynton (b)	2,790,688	-	-	-	(2,790,688)	-
Executive director						
Mr TD Stinson	1,172,621	-	-	500,000	-	1,672,621
Other KMP						
Mr TM Alder (c)	-	-	-	-	-	-
Dr GP Cathcart	71,635	-	1,085	200,000	-	272,720
Mr MC Lane	126,678	-	1,085	-	-	127,763
Mr IG Veitch (d)	30,515	-	1,085	200,000	(231,600)	-
Ms C Law (e)	-	-	-	-	-	-

(a) Mr Gallagher was appointed a KMP on 12 April 2017.

(b) Mr Poynton ceased as a KMP on 12 April 2017.

(c) Mr Alder was appointed as a KMP on 14 December 2016.

(d) Mr Veitch ceased as a KMP on 18 November 2016.

(e) Ms Law ceased as a KMP on 3 May 2017.

	Number Held at	Number Granted as compensation			Number Held at	
	1-Jul-15	Number of Shares Purchased	ESP #1	Vested PRP	Number of Shares Sold	30-Jun-16
Non-executive directors						
Mr JP Welborn	8,195	670,908	-	-	-	679,103
Mr JH Poynton	2,665,688	125,000	-	-	-	2,790,688
Executive director						
Mr TD Stinson	538,441	134,180	-	500,000	-	1,172,621
Other KMP						
Ms C Law (a)	-	-	-	-	-	-
Dr GP Cathcart	69,957	-	1,678	200,000	(200,000)	71,635
Mr IG Veitch	28,837	-	1,678	200,000	(200,000)	30,515
Mr MC Lane	-	125,000	1,678	-	-	126,678

(a) Ms Law was appointed as a KMP on 26 April 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

31. KEY MANAGEMENT PERSONNEL (CONTINUED)

Movement in LTI equity rights

The movement during the reporting period in the number of LTI rights to ordinary shares in Orbital Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Number							
	Held at 1-Jul-16	Offered	Forfeited	Expired	Cancelled	Vested	Held at 30-Jun-17	Not Exercisable
<u>Executive Director</u>								
Mr TD Stinson	500,000	500,000	-	-	-	(500,000)	500,000	500,000
<u>Other KMP</u>								
Mr TM Alder (a)	-	-	-	-	-	-	-	-
Dr GP Cathcart	200,000	-	-	-	-	(200,000)	-	-
Mr MC Lane	-	-	-	-	-	-	-	-
Mr IG Veitch (b)	200,000	-	-	-	-	(200,000)	-	-
Ms C Law (c)	-	-	-	-	-	-	-	-

(a) Mr Alder was appointed as a KMP on 14 December 2016.

(b) Mr Veitch ceased as a KMP on 18 November 2016.

(c) Ms Law ceased as a KMP on 3 May 2017.

	Number							
	Held at 1-Jul-15	Offered	Forfeited	Expired	Cancelled	Vested	Held at 30-Jun-16	Not Exercisable
<u>Executive Director</u>								
Mr TD Stinson	1,000,000	-	-	-	-	500,000	500,000	500,000
<u>Other KMP</u>								
Dr GP Cathcart	400,000	-	-	-	-	200,000	200,000	200,000
Mr MC Lane	-	-	-	-	-	-	-	-
Mr IG Veitch	400,000	-	-	-	-	200,000	200,000	200,000
Ms C Law (a)	-	-	-	-	-	-	-	-

(a) Ms Law was appointed as a KMP on 26 April 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	CONSOLIDATED	
		2017	2016
		\$'000	\$'000
32. NOTES TO THE STATEMENT OF CASH FLOWS			
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows		<u>17,131</u>	<u>24,872</u>
Cash and cash equivalents per statement of financial position		<u>17,131</u>	<u>24,872</u>
Reconciliation of cash flows from operating activities			
(Loss)/profit after income tax from continuing operations		(12,251)	1,283
Loss after income tax from discontinued operations		-	(68)
(Loss)/profit after income tax		<u>(12,251)</u>	<u>1,215</u>
<i>Adjustments for:</i>			
Loss on sale of plant and equipment		(9)	(19)
Depreciation	18	579	607
Amortisation and Impairment of intangible assets	19	5,218	312
Amortisation of deferred revenue and government grants		(225)	(225)
Impairment, write-off of trade receivables		-	(1)
Impairment of disposal group	29	-	23
Amortisation of non-interest bearing loans	12(b)	540	543
Amounts set aside to warranty and other provisions		292	(232)
Fair value movement in quoted equity shares	8(c)	568	-
Profit on sale of interest in equity accounted investment		-	(3,861)
Share of net profit of equity accounted investment	16	-	(1,529)
Foreign currency translation reserve released on sale of equity accounted investment		-	(3,607)
Convertible note finance costs		-	948
Employee compensation expense	33(a)	165	196
Net foreign exchange gain/ (loss)		72	(2)
Net cash used in operating activities before changes in assets and		<u>(5,051)</u>	<u>(5,632)</u>
<i>Changes in assets and liabilities during the year:</i>			
(Increase)/Decrease in receivables and prepayments		(998)	1,098
Decrease/(Increase) in inventories		967	(3,331)
(increase)/Decrease in deferred tax assets		(25)	330
Increase in payables		857	2,319
(Decrease)/Increase in employee provisions		(603)	135
		<u>198</u>	<u>551</u>
Net cash used in operating activities		<u>(4,853)</u>	<u>(5,081)</u>
33. SHARE BASED PAYMENTS			
(a) Recognised share-based payment expenses			
Expense arising from equity-settled share-based payment transactions		<u>165</u>	<u>196</u>

The share-based payments are described below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

33. SHARE BASED PAYMENTS (CONTINUED)

(b) Employee Share Plan No.1

Under Employee Share Plan No. 1 each eligible employee is offered fully paid ordinary shares to the value of \$1,000 per annum.

During the year there were 61,875 (2016: 95,646) shares issued under Plan No. 1 to eligible employees at a market value on the day of issue of \$56,917 (2016: \$57,000).

(c) Executive Long Term Incentive – 2017 Performance Rights Plan based on market capitalisation

The Company introduced new performance milestones under the Performance Rights Plan as part of its long-term incentive arrangements for the Managing Director and CEO, which was approved by shareholders on 7 November 2016. Also refer to section 18.5 Executive remuneration arrangements in Director's report.

Under the Performance Rights Plan, performance rights could only be issued if the terms and conditions detailed below are satisfied.

A performance right is a right to acquire one fully paid ordinary share in the Company. Until they are exercised, performance rights:

- (a) do not give the holder a legal or beneficial interest in shares of the Company; and
- (b) do not enable participating executives to receive dividends, rights on winding up, voting rights or other shareholder benefits.

Performance rights issued under the Performance Rights Plan will be exercisable if:

- (a) a performance hurdle is met over the periods specified by the Board; or
- (b) the Board allows early exercise on cessation of employment (see "Cessation of employment" below); or
- (c) it is determined by the Board in light of specific circumstances.

The performance conditions are 100% based on market capitalisation with the following performance timeframes and targets:

Tranche	Performance Condition	Fair Value per right	Expiry Date	Allocation
				<u>Mr T D Stinson</u>
1	Milestone: the Company having a market capitalisation of \$125 million & and share price of \$1.50 per share for a period of 30 consecutive days.	50.0 cents	24 months from the date of issue of the Performance Rights	200,000
2	Milestone: the Company having a market capitalisation of \$200 million and a share price of \$2.00 for a period of 30 consecutive calendar days.	42.0 cents	36 months from the date of issue of the Performance Rights	300,000
		Total		<u>500,000</u>

During the year no rights under the plan vested. The total expense recognised during the period is \$59,252 (2016: \$nil)

(d) Executive Long Term Incentive – 2015 Performance Rights Plan based on market capitalisation

Prior to the current Performance Rights Plan, the Company's long term incentive arrangement for senior executives was approved by shareholders on 21 October 2014 and included the same terms and conditions as the current Performance Rights Plan specified above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

33. SHARE BASED PAYMENTS (CONTINUED)

(d) Executive Long Term Incentive – 2015 Performance Rights Plan based on market capitalisation (continued)

The prior year performance conditions were based on market capitalisation with the following performance timeframes and targets:

Tranche	Market Capitalisation	Fair Value per right	Expiry Date	Allocation		
				Mr T D Stinson	Dr GP Cathcart	Mr IG Veitch
1	\$20 million	23.1 cents	18 months from the date of issue of the Performance Rights	500,000	200,000	200,000
2	\$35 million	17.5 cents	24 months from the date of issue of the Performance Rights	500,000	200,000	200,000
3	\$60 million	15.3 cents	36 months from the date of issue of the Performance Rights	500,000	200,000	200,000
Total				1,500,000	600,000	600,000

During the year a total of 900,000 rights under the plan vested for 3 executives (2016: 900,000). The total expense recognised during the period is \$49,189 (2016: \$138,932).

The performance rights granted were measured at fair value at the grant date 21 October 2014 using the "Hoadley Barrier 1" binomial option valuation model. Refer to section 18.8 and table 7 in Remuneration Reports for further details.

34. DEFINED CONTRIBUTION SUPERANNUATION FUND

The Group contributes to a defined contribution plan for the provision of benefits to Australian employees on retirement, death or disability. Employee and employer contributions are based on various percentages of gross salaries and wages. Apart from the contributions required under superannuation legislation, there is no legally enforceable obligation on the Company or its controlled entities to contribute to the superannuation plan.

CONSOLIDATED	
2017	2016
\$'000	\$'000

35. COMMITMENTS

Operating lease commitments – Group as lessee

Non-cancellable future operating lease rentals not provided for in the financial statements and payable:

- Not later than one year	899	873
- Later than one year but not later than five years	2,498	3,397
- Later than five years	-	-
	<u>3,397</u>	<u>4,270</u>

The Group leases premises and plant & equipment under operating leases. The lease for the engineering premises is for a period of 10 years with options to extend for two further periods of five years each. None of the leases include contingent rentals.

During the financial year ended 30 June 2017, \$940,000 was recognised as an expense in the statement of profit or loss in respect of operating leases (2016: \$768,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	\$'000	\$'000

35. COMMITMENTS (CONTINUED)

Operating lease commitments – Group as lessor

The Group has entered into an operating sub lease for surplus capacity at its engineering premises for a period of 5 years with options to extend for further periods. It includes a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases, are as follows:

- Not later than one year	331	321
- Later than one year but not later than five years	225	556
- Later than five years	-	-
	<u>556</u>	<u>877</u>

36. CONTINGENCIES

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The directors are not aware of any circumstance or information that would lead them to believe that these liabilities will crystallise.

In the event of the Company terminating the employment of the Chief Executive Officer (other than by reason of serious misconduct or material breach of his service agreement), an equivalent of 12 months remuneration is payable to the CEO. In the event of the Company terminating the employment of a KMP (other than by reason of serious misconduct or material breach of their service agreement), an equivalent of 3 months pay, plus 2 weeks pay for each completed year of service, plus for each completed year of service beyond 10, an additional 1/2 weeks pay, plus a pro-rata payment for each completed month of service in the final year is payable to the KMP. The maximum entitlement to termination pay is limited to 65 weeks pay. There are no other contingent liabilities for termination benefits under the service agreements with Directors or other persons who take part in the management of any entity within the Group.

37. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

	CONSOLIDATED	
	2017	2016
	\$	\$

38. REMUNERATION OF AUDITORS

The Auditors of the Group in 2017 and 2016 were Ernst & Young.

Amounts received or due and receivable by Ernst & Young for:

Audit services:

- Audit and review of financial reports – Australian reporting	105,000	97,850
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Other services:

- R & D tax concession return preparation and review	<u>110,095</u>	<u>43,262</u>
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Total received or due and receivable by Ernst & Young	<u>215,095</u>	<u>141,112</u>
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DIRECTOR'S DECLARATION

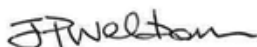
In accordance with a resolution of the Directors of Orbital Corporation Limited, I state that:

1. In the opinion of the Directors:

- (a) The financial statements and notes and the additional disclosures included in the Directors' Report designated as audited, of the group are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the financial position of the Group as at 30 June 2017 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) Complying with Accounting Standards in Australia and the *Corporations Act 2001*.
- (b) The financial statements and notes also comply with International Financial reporting Standards as disclosed in note 2(a).
- (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001*, from the Chief Executive Officer and Chief Financial Officer for the financial year 30 June 2017.

On behalf of the Board,



JP Welborn
Chairman



TM Alder
Managing Director & Chief Executive Officer

Dated at Perth, Western Australia this 29th day of August 2017.

Independent auditor's report to the members of Orbital Corporation Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Orbital Corporation Limited ("the Company") and its subsidiaries (collectively "the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Impairment assessment of goodwill

Why significant

At 30 June 2017, the Group impaired goodwill of \$5.218 million to nil on the consolidated statement of financial position. Impairment of goodwill is significant to the extent that the related impairment represents 43 per cent of the loss from continuing operations.

Goodwill was attributed to the acquisition of REMSAFE Pty Ltd, which was treated as a separate cash-generating unit ("CGU").

The Group assesses goodwill for impairment annually. The impairment test requires the Group to exercise judgment to calculate the recoverable amount of the CGU. The Group considers prospective financial information and external market data.

Key assumptions and judgments are disclosed in Note 19 of the financial report

How our audit addressed the key audit matter

Our procedures included the evaluation and assessment of the assumptions and methodologies used by the Group in calculating the recoverable amount of the CGU.

We involved our valuation specialists to evaluate the key assumptions and methodologies used by the Group.

We compared the Group's assumptions to our own assessments and externally derived data for key inputs such as cost inflation and discount rates.

We assessed the procedures of the Group as to the preparation of prospective financial information, which was approved by the Board of Directors of the Group.

We evaluated the historical reliability of prior period cash flow forecasts including assessing this against the actual financial performance of the Group for the year ended 30 June 2017.

We compared the projected discounted cash flows to the carrying amount of the assets allocated to the CGU.

We assessed the adequacy of the disclosures related to testing goodwill for impairment, as described in Note 19 to the financial report.

Recoverability of deferred tax assets

Why significant

At 30 June 2017, the Group carried a deferred tax asset attributed to Australian carry-forward tax losses of \$5.507 million (2016: \$5.482 million).

The Group assessed the deferred tax asset as recoverable for the reasons set out in Note 17 of the financial report.

The recoverability of a deferred tax asset is significant as the existence of unused tax losses is an indicator that future taxable profits may not be available against which unused tax losses may be utilised.

How our audit addressed the key audit matter

We compared the Group's assumptions associated with market data to our own assessments and externally derived data for key inputs such as the long-term USD/AUD exchange rate and cost inflation.

We performed a sensitivity analysis to assess the headroom of the Group's estimate of future taxable income against deferred tax assets recognised on the consolidated statement of financial position and to evaluate the implication of uncertainty around future performance.

We assessed the adequacy of the disclosures related deferred tax assets, as described in Note 17 to the financial report.

Contingent consideration

Why significant

On 13 October 2016, the Group acquired the remaining 38.50% minority interest in REMSAFE Pty Ltd for 1.000 million ordinary shares in the Group.

Contingent consideration of 4.000 million shares in the Group will be payable, subject to the satisfaction of performance hurdles as described in Note 26 to the financial report.

At 30 June 2017, contingent consideration of \$3.440 million (2016: Nil) was recognised to equity in the consolidated statement of financial position.

The recognition of contingent consideration involves judgment to determine whether the contingent consideration should be recorded on the consolidated statement of financial position as it involves estimation of performance targets related to future sales.

How our audit addressed the key audit matter

We inspected the executed Shares Sale Agreement to understand the terms of the contingent consideration and performance targets related to future sales. We evaluated the Group's assessment of meeting these performance targets.

We evaluated whether the terms of the contingent consideration satisfied the definition of an equity instrument in accordance with Australian Accounting Standard - AASB 132 *Financial Instruments: Presentation*.

We assessed the adequacy of the disclosures related to contingent consideration, as described in Note 26 to the financial report.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on the audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 8 to 18 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Orbital Corporation Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

T G Dachs
Partner
Perth
29 August 2017

SHAREHOLDING DETAILS

Class of Shares and Voting Rights

As at 15 August 2017 there were 4,246 shareholders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 8 of the Company's Constitution, subject to any rights or restrictions for the time being attached to any class or classes of shares, are:

- a) at meetings of members or class of members, each member entitled to vote may vote in person or by proxy or representative; and
- b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or representative has one vote for each ordinary share held.

Substantial Shareholders and Holdings as at 14 August 2017

UIL Limited (as notified 13 April 2017)	23,227,904	30.05%
Commonwealth Bank of Australia (as notified 10 January 2017)	7,729,118	9.99%

Distribution of Shareholdings as at 14 August 2017

1-1,000	2,641
1,001-5,000	945
5,001-10,000	279
10,001-100,000	318
100,001 and over	63
Number of shareholders	4,246
Total Shares on Issue	77,295,882
Number of shareholders holding less than a marketable parcel	-

Top 20 Shareholders as at 14 August 2017

NAME	NUMBER OF SHARES HELD	% OF SHARES
1 J P MORGAN NOMINEES AUSTRALIA LIMITED	25,993,830	33.63
2 CITICORP NOMINEES PTY LIMITED	9,330,271	12.07
3 ANAPURNA PTY LTD	2,600,000	3.36
3 MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	2,600,000	3.36
4 DEBUSCEY PTY LTD	1,850,000	2.39
5 BIRKETU PTY LTD	1,600,000	2.07
6 MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,512,996	1.96
7 MR JOSHUA LEIGH SWEETMAN	1,325,000	1.71
8 MR TERRY DEWAYNE STINSON	1,172,621	1.52
9 MR MICHAEL WILLIAM FORD & MRS NINA BETTE FORD	1,000,122	1.29
10 MR CRAIG GRAEME CHAPMAN	1,000,000	1.29
11 NATIONAL NOMINEES LIMITED	812,015	1.05
12 MR CHRISTOPHER IAN WALLIN & MS FIONA KAY MCLOUGHLIN & MRS SYLVIA FAY	689,200	0.89
13 MR JOHN PAUL WELBORN & MS CAROLINE ANNE WELBORN	679,103	0.88
14 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	586,886	0.76
15 MR SEAMUS CORNELIUS	500,000	0.65
15 TERRY STINSON	500,000	0.65
16 GWYNVILL TRADING PTY LTD	403,500	0.52
17 MR JOHN AYRES	356,667	0.46
18 MR LAWRENCE HULSE & MRS BARBARA ANN HULSE	350,000	0.45
18 C W JOHNSTON PTY LTD	350,000	0.45
19 TEXAS HOLDINGS PTY LTD	349,728	0.45
20 BOND STREET CUSTODIANS LIMITED	335,000	0.43
Top 20 Shareholders Total	55,896,939	72.32

The 20 largest shareholders hold 72.32% of the ordinary shares of the Company (2016: 65.00%).

On-market share buy-back

There is no current on-market buy-back.

CORPORATE INFORMATION

ABN 32 009 344 058

REGISTERED AND PRINCIPAL OFFICE

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Balcatta, Western Australia 6021
Australia

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Email: AskUs@orbitalcorp.com.au

DIRECTORS

J.P. Welborn, Chairman

T.M. Alder, Managing Director and Chief Executive Officer

S. Gallagher

T.D. Stinson

COMPANY SECRETARY

R. Jones

SHARE REGISTRY

Link Market Services Limited

Level 4 Central Park

152 St Georges Terrace

Perth, Western Australia 6000

Telephone: 61 (08) 9211 6670

SHARE TRADING FACILITIES

Australian Stock Exchange Limited (Code "**OEC**")

AUDITORS

Ernst & Young

The Ernst & Young Building

11 Mounts Bay Road

Perth, Western Australia 6000



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